IDEAS ON LIBERTY

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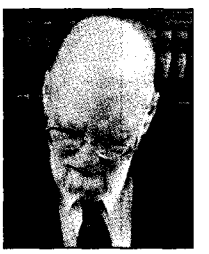

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PERSPECTIVE

To Subsidize or Not to Subsidize

As a fan of Gilbert and Sullivan, I partici pate in an Internet e-mail forum known a: Savoynet, where everything about the famous librettist and composer of late Victo rian comic opera comes under discussion Recently a forum participant lamented the demise more than 20 years ago of the D'Oyly Carte Opera Company, which began pro ducing the operas in 1889 under impresario Richard D'Oyly Carte. The participant spec ulated that had the British government extended sufficient subsidies, the company might have survived. There ensued a discus sion of whether subsidies would have done the trick.

I took another tack: "But that [a subsidy] would have meant forcing the taxpayers to do what they would not do voluntarily as theatergoers. Where's the justice in that? Maybe they had something else to do with their money."

That didn't go over well. One respondent wrote: "That is precisely why taxes exist. They permit community expenditure on things that individuals cannot or will not support on their own, but that are necessary or desirable."

I replied, "'Necessary or desirable' by whose standard? The individual should be free to decide what it is necessary or desir able for him to spend his own money on. 'Community expenditure' is a euphemism for the larger gang compelling the smaller group to do something its members don't want to do. Special-interest peddling is not the least bit noble, regardless of how much communitarian crepe paper is draped over it."

I might as well have been speaking Sumer ian.

Another participant wrote this: "Huge subsidies of opera/theatre worldwide are a modern fact of life, and are unrelated to the benevolence of taxpayers. For example, at the splendid Colón Theatre in Buenos Aires, once described by Toscanini as 'the best the-

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atre in the world,' the 1995 Government grant was 75 percent. Would it have been reasonable to ask 'where is the justice in that?'"

To which I replied: "By all means it would have been reasonable. Why should elitist policymakers, with or without Toscanini's blessing, decide that an individual must spend his money on the Colón Theatre rather than on his family or himself?"

To which he replied: "I would say, Sheldon, that the world would be a poorer place if it were possible for your thinking to be universally applied!"

No space here to elaborate on the irony of this gentleman's suggestion that a world without coercive subsides would be a poorer place. On the contrary, in more than one way it would be a richer place.

* * *

In its effort to protect children from unsavory material, the U.S. government is trying to create a safe haven on the World Wide Web. Gary McGath predicts that it won't protect anyone, but says this venture in shaping the Internet is ominous.

Understanding that knowledge is open-ended sheds light on so many things, including the work of FEE. So says Israel Kirzner in this classic reprint.

The freedom philosophy comes down to making a moral distinction between persuasion and aggression. Since most people already accept that distinction in their personal lives, Gene Callahan says the foundation for building a free society is already in place.

Environmental activists who think capitalism isn't "sustainable" are apparently unacquainted with the lengths to which businessmen have gone to get the most from resources. Pierre Desrochers continues his look at the benign environmental consequences of the profit motive.

The difference between advocates of the freedom philosophy and of socialism comes down to a clash over whether human beings have a specific nature. Frédéric Bastiat early on understood what the debate was about. Jim Peron explains.

Another way that compulsory unionism makes life difficult for people is by raising the cost of government. Steven Greenhut shows how it works.

Only a misunderstanding of human motivation can explain why some people prefer nonprofit operations to for-profit enterprises. Karen Selick gets to the bottom of the mystery.

Until government stepped in, selfish capitalists intentionally paid workers so little that they could barely stay alive. That's what virtually everyone is taught. Thomas Woods corrects the record.

The controversy over whether the U.S. government should maintain an embargo against Cuba is based on the assumption that without the embargo the communist island could afford to import American products. T. Norman Van Cott questions that assumption.

Eons ago mankind lived in happy socialist communes without profit or private property. How do we know? The socialists have told us so—over and over. One problem, according to Robert Wright: the story is wrong.

Here's what this month's columnists have come up with: Lawrence Reed considers the nature of patriotism. Doug Bandow looks at the regulatory jungle. Steven Davies revisits China's industrial revolution. Donald Boudreaux dissects hypocrisy. Russell Roberts contemplates the nature of price gouging. And Clayton Cramer, considering the claim that banning handguns would, on net, save lives, protests, "It Just Ain't So!"

Books coming under the microscope deal with dependence on government, multiculturalism, H. L. Mencken, plutocracy, individualist feminism, and the late Robert Nozick.

—SHELDON RICHMAN

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IDEAS ON LIBERTY
JUNE 2003

Banning Handguns Would Save Lives?

It Just Ain't So!

A *Los Angeles Times* opinion piece by Jennifer Price last February, "Gun Lobby's Perfect Aim," asks: why not ban handguns? She was writing in anger and sorrow over the murder of her brother David and his wife, by the wife's mother.

Emotion is a poor basis for public policy, and the essay demonstrates a poor grasp of the underlying problems. Ms. Price tells us that "Handguns are tools to kill people. It's what they're designed to do effectively and well. It's not surprising that some 11,000 people annually in the United States use them intentionally to do exactly that."

Most people will take that to mean 11,000 *murders*. Examining the data shows why a handgun ban—even if the government could actually enforce it—wouldn't save 11,000 lives. It might not save any lives at all.

According to the FBI, in 2001 there were *no more* than 6,790 handgun murders and non-negligent manslaughters. The FBI counts these crimes based on the initial charges filed. About 3 percent of private gun killings initially charged as crimes are, within a year, reclassified as self-defense. The actual handgun-murder count is probably closer to 6,500. There also were probably 700 to 900 justifiable handgun homicides by police officers and private individuals.

The police shootings would not be affected by a handgun ban. But a ban on private handgun ownership probably will substantially reduce private justifiable handgun homicides. Most law-abiding people won't break the law to own a handgun. The rapists, murderers, and armed robbers, on the other hand, have already shown us their attitude toward obeying laws. If all 100 million handguns in America today disappeared (an extraordinarily efficient police state would be required), some unknown percentage of those justifiable homicides would be replaced by murders, rapes, and rape-murders. Even if there were still a net reduction in deaths, it would not be an argument for a ban; the life of a criminal is of no value compared to the life or suffering of his victim.

We're up to about 7,200 intentional handgun killings. So how does Ms. Price get 11,000? The remaining deaths aren't accidents; they are suicides—and a handgun ban isn't going to reduce those deaths, because suicide is hard to prevent. According to criminology professor Gary Kleck in *Point Blank*, the percentage of suicide attempts that "succeed" is about the same regardless of method: 84.7 percent for guns, 80 percent for hanging, and 77 percent using car exhaust.

Still, we are talking about 6,500 or so lives cut short by handgun murders. What happens if we ban handguns? Prohibition and the War on Drugs have taught us that as long as a demand exists, someone will try to fill it, no matter how draconian the laws are. Handguns—which already sell for $90–$300 a pound—would be very profitable to smuggle. Perhaps smugglers would hide handguns inside bales of marijuana or bags of cocaine to hide them from Customs.

Even in jails—where prisoners are strip-searched when they enter, where there is no physical contact with visitors, where prisoners and their cells can be searched at any time, and where guards have a powerful interest in keeping prisoners disarmed—guns still slip in. Back in the early 1990s, New York City jail inmates were shooting themselves and then suing the city for "inadequate protection by jail officials." If jail walls can't keep guns out, does anyone seriously think that our national borders will do even as well?

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Almost any medium-sized town in America could make sufficient handguns to satisfy criminals and scared but otherwise law-abiding people. Even with guns legal and cheap, illegal manufacturing still goes on. In 1992 David Ohman was arrested after Alameda County, California, sheriff's deputies found newly manufactured machine guns and handguns in his shop with no serial numbers.

True, a ban on handguns means that someone like Jennifer Price's brother's mother-in-law wouldn't have been able to legally buy a handgun, and she might not have known where or how to buy one illegally. But his mother-in-law is not a typical murderer.

In *Point Blank* Kleck points out that the "average killer has a long history of criminal conduct in his or her past." This includes "perpetrators of domestic 'crime-of-passion' homicides." In 2001, 21 percent of identified murderers were 19 or under—who couldn't lawfully purchase a handgun. The average murderer is already breaking many laws by buying a handgun; as long as handguns are available on the black market, criminals will buy them.

If Guns Disappeared

What if the handguns actually disappeared? Some criminologists convincingly argue that such a ban might actually *increase* murder rates. At least some gun robberies would still take place—but instead of using handguns, criminals would use sawed-off long guns. As Kleck points out, making a handgun requires machine tools and skill; cutting a shotgun or a rifle down to a concealable size only requires a hacksaw and 20 minutes. Since a sawed-off shotgun is substantially more deadly than a handgun, even if the robbery rate stayed the same, Kleck argues, robbery-related murders would probably increase.

As criminologists James Wright, Peter Rossi, and Kathleen Daly put it: "If someone intends to open fire on the authors of this study, our *strong* preference is that they open fire with a handgun, and the junkier the handgun, the better. The possibility that even a fraction of the predators who now walk the streets armed with handguns would, in the face of a handgun ban, prowl with sawed-off shotguns instead, causes one to tremble."

Ms. Price seems to have missed that handguns can be a deterrent. Unlike in California, where concealed weapon permits are usually available only after making a large campaign contribution to the sheriff, in many American states, law-abiding adults can get a permit to carry a concealed handgun for self-defense. Criminals know that in many of these states about 3–4 percent of the people have permits to carry handguns. The *next* victim a criminal attacks might be the *last* victim he attacks. Liberalization of concealed-weapon permit laws appear to have caused mild but statistically significant reductions in rates for murder, rape, and robbery. (See John R. Lott's *More Guns, Less Crime*.)

As long as we focus on the *instruments* of murder, as Ms. Price does, we'll never solve the underlying problem: violence. I grew up in Los Angeles, but now live in Boise, Idaho, which has lots of handguns and almost no gun-control laws. The FBI says it had five murders in the years 1999–2001. That's 0.95 murders per 100,000 people per year—with all weapon types. Pretty clearly, handguns aren't much misused here.

Ms. Price's loss is a tragedy, and it seems a handgun ban might have prevented it. Her brother's death, however, is not typical of handgun murder in America. The price of saving two lives near to her might well be three or four strangers murdered with other weapons because they were unable to defend themselves from career criminals.

—Clayton E. Cramer
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Author, *Concealed Weapon Laws of the Early Republic: Dueling, Southern Violence, and Moral Reform* (Praeger Press)

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JUNE 2003

Dot-Kids 'R' US

Gary McGath

In children's stories a problem can often be solved just by uttering the right magic words. Cinderella can become a glamorous debutante with a "Bibbidi bobbidiboo." Harry Potter's friends can get past a locked door with an "Alohomora." Real life is quite a different matter, though, even when Congress thinks a magic word can protect children from danger.

The magic word in this case is "dot-kids." Members of Congress have supposed that children can be protected from predators and harmful influences on the Internet by creating a top-level domain (TLD) exclusively for children. Just what sort of protection this can offer has never been made clear.

The original bill proposed was the Dot Kids Domain Name Act of 2001 (HR 2417), which would have ordered ICANN, the Internet Corporation for Assigned Names and Numbers, to create a new TLD, .kids, on a par with .com, .gov, and the various national domains. ICANN would have had 30 days to carry out the mandate and would have been forbidden to establish any other TLDs until it had done so. It didn't quite work out the way the bill's sponsors expected.

There are two types of top-level domains, those that apply to a particular country and those that apply worldwide. The .com and .net TLD's are worldwide; anyone anywhere can register a domain under them. The same would have been true for .kids, but its content would have been under the control of the U.S. government. Registry would be permitted only through a California corporation called .KIDS Domains.

The existence of a .kids domain would not in itself prevent children from accessing other domains. It would not keep anyone from contacting children by e-mail or online chat. But it would allow the U.S. government's designated domain administrators to specify acceptable content for domains registered under .kids. On what basis would the U.S. government set standards for children worldwide? What is acceptable in parts of Europe could be shocking in much of the United States. What is deemed harmless in the United States might be considered utterly indecent in Saudi Arabia. ICANN describes itself as "a coalition of the Internet's business, technical, non-commercial, and academic communities," and specifically as a "*private sector* (that is, non-governmental) policymaking body."[1]

For the government to dictate policy to ICANN simply because it happens to be headquartered in the United States would have dealt a crushing blow to its independence. Fortunately, ICANN had the courage to reject the .kids TLD, and the 2001 bill died in committee.

The next year, though, Congress came back with a more limited plan to create a children's subdomain to the .us TLD:

Gary McGath, a software engineer and freelance writer, is a former editor of the Thomas Paine Review.

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kids.us. And so President Bush signed into law the Dot Kids Implementation and Efficiency Act of 2002.

The .us TLD is administered by NeuStar, a private company under contract to the National Telecommunications and Information Administration (NTIA) in the Department of Commerce. In return for taking on the difficult task of making the new domain work, NeuStar was given a two-year extension on its contract to run the .us TLD.

The new law doesn't have the same implications for international hegemony and control over private-sector activity as the earlier proposal. However, it is equally useless and still troubling in its implications for free speech. A letter from the Center for Democracy and Technology (CDT) to Senators Ron Wyden and George Allen raised this issue: "How will the NTIA decide whether the content in .us is in its view 'suitable for minors'? . . . A parent in Manhattan may allow their 10-year-old to view material that a parent in Minneapolis may not."[2]

Representative John Shimkus, the lead sponsor of the bill, justified it by asking, "I have repeatedly said that libraries have children's book sections, why can't the Internet have the same type of section devoted to children's interests?"[3] The analogy to the children's section of a library is found in the text of the bill itself. One might reply that the fact that governments have authority over the organization of public libraries doesn't imply they should have authority over the structure of the Internet.

No Cure-All

To begin carrying out its mandate, NeuStar has issued a document raising issues and seeking ideas on how to manage the domain. It is candid about the limits on what it can do: "From the start, it is important to be clear that the kids.us domain is not intended to be a cure-all solution to the many problems and dangers associated with children's use of the Internet. . . . Given the technical and legal limitations that plague any Internet domain, a space dedicated to children can be targeted by bad actors or subject to technical problems. These facts demonstrate that there can be no truly safe place or 'haven' for children."[4]

Most of the document is tentative. The proposed guidelines, though, show that the plan behind the domain goes beyond excluding what is "harmful" to children and aims at imposing positive content requirements. One proposal is that all content registrars in the kids.us domain must "commit to have some component of educational and informational content for children on their respective domains." Pure entertainment sites would be excluded by this requirement, however child-safe they might be. In practice, sites would probably meet the requirement by having "educational" pages that few would bother to read.

The question of how, and to what extent, to enforce content regulations is wide open. NeuStar's document deals with the question only by asking for suggestions on enforcement and monitoring procedures, and specifically asking that any comments discuss "the potential expenses and allocation of costs." If sites are going to be regularly monitored by human beings, the job will be labor-intensive, expensive, and subject to the varying judgments of the reviewers. If software does the monitoring, looking for telltale words and phrases, it will be unreliable, frequently flagging innocent content while missing offensive material. Either way, the more aggressive the monitoring, the more content providers will restrict themselves to completely uncontroversial material, avoiding anything that might give a censor an excuse to apply sanctions.

Another disturbing proposal is to prohibit links from kids.us websites to unapproved domains. The NeuStar document presents this as an open question, but the text of the bill appears to require it.[5] This would extend the reach of the reviewers to all websites, not just those that choose to use kids.us. That would not stop children from accessing other websites directly, but it would deny sites within the domain the freedom to point at huge amounts of valuable resources, including any domain based outside the United States. Some of the larger sites would

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undoubtedly create special editions for kids.us, but the large majority would not have the resources to duplicate their material in a government-approved package.

There have been scattered claims in the news media that parents would be able to set up web browsers so that their children could access only the kids.us domain. No existing browsers, as far as I can determine, have this capability, but in its most basic and restrictive form it wouldn't be hard to implement. However, unless their children have their own computers, their parents would find themselves constantly having to turn the block on and off. People with older computers might not be able to upgrade their browsers. Also, such a block would be effective only if the domain strictly excludes not just links but gateway sites and search engines that allow indirect access to the rest of the Internet.

Specific prohibitions that NeuStar proposes include "content that displays, sells, or advocates the use of weapons," "advocates or contemplates alcohol consumption," "demonstrates explicit violence against people or animals," or "features smoking or use of other tobacco products." Another proposed prohibition concerns the famous seven dirty words. These proposals clearly go beyond protecting children to inculcating a particular political view, one which holds that merely seeing guns, drinking, or smoking is somehow harmful to children.

In the kids' web wonderland there will be no wars, no scatological language, no one beaten up, no one even talking about having a drink, and no one smoking. Even Disney would have to edit its G-rated cartoon trailers carefully. *Lord of the Rings,* with its drinking songs, pipeweed, and wars, wouldn't stand a chance of being approved. Neither, for that matter, would an unexpurgated edition of the Bible.

Ominous Loophole

A loophole in the NeuStar document gives still more opportunity for selective content control: "[W]e envision that content would be reviewed by the Content Manager(s) on the whole. If such content is deemed by the Content Manager(s) as having serious educational, informational, intellectual, literary, artistic, political, or scientific value for minors we believe that exceptions can be made to allow this content to appear in the kids.us domain." But first a site manager has to get the attention of the Content Manager. As for those who don't have the connections and persistence to get a live human being to grant an exception, they can go back to their .com domain.

But so can children, when they realize that there is nothing but safe, sanitized, utterly boring material in kids.us and a great deal of useful or entertaining material that can't be reached from there. The huge amount of useful and interesting content locked away from them will give children ample motivation to discover how to get around the domain block, assuming parents can stand to keep the block turned on in spite of all the complaints they'll hear.

Congress has done only what any private company in America could have done; it has established a subdomain of the national TLD and set conditions on how it can be used. But a private company would be wasting only its own money and reputation. By having federally designated monitors decide what is "suitable for children," Congress is stepping into an area where it does not belong.

The kids.us domain will do nearly nothing to protect children, while giving the government an opportunity to engage in content regulation. The best scenario is that the domain will languish in obscurity and everyone will forget about it. The worst scenario is that it will languish in obscurity, but politicians will insist that its failure proves the need for wider powers. We will soon know which happens. □

1. "Background," ICANN, July 1999, www.icann.org/general/background.htm; emphasis in original.
2. Letter from Center for Democracy and Technology, September 12, 2002, www.cdt.org/dns/020912dotkids.shtml.
3. Jim Wagner, ".Kids Finally Finds a Home in the House," internetnews.com, May 21, 2002, www.internetnews.com/xSP/article.php/1142151.
4. "Proposal for Guidelines and Requirements for the kids.us Second Level Domain," NeuStar, Inc., August 2002.
5. Dot Kids Implementation and Efficiency Act of 2002 (Enrolled as Agreed to or Passed by Both House and Senate), HR3833, 107th Congress, Sec. 157(c)(11).

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JUNE 2003

FEE Classic

The Open-Endedness of Knowledge

by Israel M. Kirzner

I intend to explore in this article some aspects of the uniqueness which is FEE, and to express my fervent hope and confidence that such uniqueness will continue to permeate every nook and cranny of FEE's activities in the years to come. I will begin by noting two related but separate paradoxes that have over the years repeatedly caught my attention.

First paradox: FEE's style is one of modesty, humility, tolerance, a steadfast refusal to browbeat those who do not agree with us. Now at least superficially, this attitude of tolerance and modesty appears to be inconsistent with what the late Ben Rogge used to call "FEE's predictability."

> Quite frankly, I know of no other organization on our general side of the street whose position on any given issue is as predictable as FEE's. No ifs, ands, or buts. No equivocation. Just right down the line, ramrod straight, for a society based on the principle of anything that's peaceful.[1]

All of us know how Leonard Read used to detest anything that resembled a "leak." Well now, surely this inability to compromise, this apparently intransigent attitude would seem difficult to reconcile with the characteristic courtesy, tolerance, and genuine humility of FEE's style. This is my first apparent paradox.

Let me turn to a second apparent paradox. FEE expresses, by its very being, a passionate belief in the sanctity of individual freedom, in the dignity and profound moral worth of a free society. Well, this profound belief surely seems difficult to reconcile with FEE's refusal to evangelize for what it believes in so passionately. If freedom is so sacred, then how can we sit back and refuse to sell it? That is my second paradox.

The resolution of these apparent paradoxes, I suggest, brings us close to the very core of FEE's mission and its identity. I believe the key to all this can be provided by what I shall call the *open-endedness of knowledge. Knowledge is open-ended in the sense that no matter how much we know, this is as nothing compared with what we know that we do not know.* We all remember Sir Isaac Newton's remark about playing with pebbles of knowledge on the beach while the great ocean of scientific knowledge remains out there untouched before us—a magnificent and lofty thought.

Surely, one critically important premise of FEE's philosophy is this very lively awareness of the limits of our knowledge. So, knowledge is open-ended in the sense of always being seen as incomplete. It is always only a fragment of that which is available to be known.

Israel Kirzner is emeritus professor of economics at New York University and a former FEE trustee. This article, based on an earlier lecture, originally appeared in The Freeman: Ideas on Liberty *in March 1986.*

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There is a second idea included as an integral part in this notion of the open-endedness of knowledge. Knowledge is open-ended also in the sense that no matter where the limits and boundaries of one's present knowledge may lie, free human beings possess *an innate propensity to transcend spontaneously those barriers, those limits*, to continually escape those limits, through discovery of new horizons of knowledge the very existence of which was hitherto unsuspected. Life consists, in this sense, of a never-ending series of spontaneous leaps of discovery. The life of freedom is thus a continual expression of the dynamics of continual discovery. The free life, a life for which the open-endedness of knowledge is a central ideal, is one in which the sense of potential—unending potential, unending discovery—is at the heart of one's being. Open-endedness in this sense is the very opposite of the state of stagnancy.

I would like to illustrate and explore the significance of this open-endedness of knowledge for each of *three* separate facets of FEE's philosophy and approach. *First*, the basic understanding of economic relationships. After all, FEE is a foundation for "economic education." *Second*, the deep commitment mentioned earlier to the dignity and fertility of individual freedom. (The "fertility of freedom" is a phrase coined by the late Fritz Machlup; it expresses a profoundly important idea.) As to FEE's ideal of a free and peaceful society—what role does the open-endedness of knowledge play in that ideal? *Third*, what role does the open-endedness of knowledge play in FEE's soft-spoken, non-aggressive style of communicating its message and its philosophy to the world?

Open-Endedness of Knowledge and Economic Understanding

Let us consider the first of these three facets of FEE's work—the open-endedness of knowledge as a source of economic understanding. Here I may be excused for referring to the essential differences that separate Austrian economics, the economics that we've learned from Mises and Hayek, from the standard mainstream view. To the standard mainstream view in economics, since about 1930, the view of the world has been one in which the future is essentially known, in which the participants in markets are in effect completely informed about the relevant decisions made throughout the market by fellow participants. This is a world of equilibrium, a world in balance, a world in which quantitative economic predictions are entirely feasible. Austrian economics has a quite different view of the world, and a quite different view of the way in which economic relations can be grasped. I quote from Ludwig von Mises:

> The fundamental deficiency implied in every quantitative approach to economic problems consists in the neglect of the fact that there are no constant relations between what are called economic dimensions. There is neither constancy nor continuity in the valuations and in the formation of exchange ratios between various commodities. Every new datum brings about a reshuffling of the whole price system, the whole price structure. Understanding, by trying to grasp what is going on in the minds of the men concerned, can approach the problem of forecasting future conditions. We may call its method unsatisfactory and the positivists may arrogantly scorn it. But such arbitrary judgments must not and cannot obscure the fact that understanding is the only appropriate method of dealing with the uncertainty of future conditions.[2]

It was Mises' disciple, Friedrich Hayek, who fully explained the importance for economic understanding of recognizing the limitations of knowledge. It was as a result of his attempt to explicate the Mises-Hayek side of the celebrated socialist economic-calculation debate that Hayek first articulated the significance for market competition of dispersed information. Hayek taught us that the crucial element in market competition is the circumstance that knowledge is never concentrated in a single mind—always

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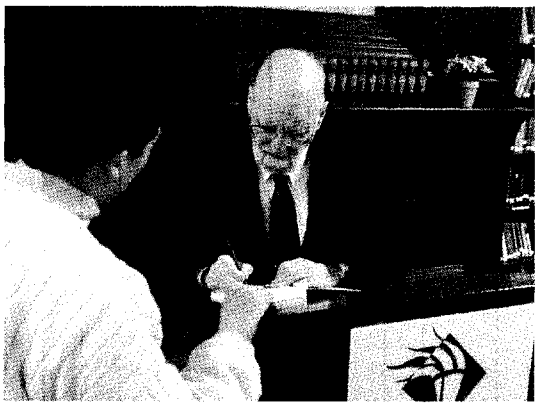

Israel Kirzner signs a copy of one of his books for Trinity College (Connecticut) senior Gordon Clark. Professor Kirzner delivered the John Anthony Krogdahl Memorial Lecture at FEE in March.

dispersed. We never know everything. None of us. No single mind can possibly know everything. No single mind can possibly grasp the entire economic problem that tends to be solved through spontaneous market processes. In more recent work, Hayek has emphasized the character of market competition as, in his terminology, a *discovery procedure*—and I quote:

> Competition is . . . first and foremost a discovery procedure. No theory can do justice to it which starts from the assumption that the facts to be discovered are already known. There is no predetermined range of known or "given" facts, which will ever all be taken into account. . . . The real issue is how we can best assist the optimum utilization of the knowledge, skills and opportunities to acquire knowledge, that are dispersed among hundreds of thousands of people, but given to nobody in their entirety. Competition must be seen as a process in which people acquire and communicate knowledge; to treat it as if all this knowledge were available to any one person at the outset is to make nonsense of it.[3]

Hayek's broader philosophy has proceeded from these fundamental insights to appreciate their even more far-reaching implications. And Hayek in fact says that "Civilization rests on the fact that we all benefit from knowledge which we do *not* possess."[4]

So far it might seem that these Austrian insights rest fundamentally on the awareness of human ignorance, on the limitations of human knowledge, but in fact they rest also on that second element in the open-endedness of knowledge that I have referred to. These insights rest, that is, also upon an appreciation for the propensity within human action to discover what was hitherto unknown—what I like to call the *entrepreneurial* propensity in human action. It is this propensity that is responsible for entrepreneurial alertness for pure profit opportunities, for entrepreneurial discovery, for bursting asunder the limits of existing knowledge. It is upon this alertness that we rely for the manner in which the market continually propels prices and decisions in the direction of greater mutual coordination. It is entrepreneurial alertness to existing errors that leads to their discovery and their eventual tendency to be corrected.

Commitment to Freedom

Let me turn to the second of the three applications of the open-endedness of knowledge: the importance of the open-endedness of knowledge for our commitment to the dignity of freedom and its fertility in a free society. Here a great deal depends, I would suggest, on our instinctive recoil from the arrogance of benevolent dictatorship. Let me quote Leonard Read here:

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> There are numerous virtues and vices that account for the rise and fall of societies. Near the top of the list are the two opposites, humility and pride. . . . Pride sprouts and grows from ignorance and self-blindness. Those with a haughty spirit foolishly believe they know the most, whereas they know the least. While they don't know how to make a pencil, or why grass is green, or who we are, they "know" how to run our lives. In their blind pride, the least taste of political power drives them to become power addicts. Until such persons seek help there is little we can do to curb their addiction. What we can and must do is to develop in ourselves the strength of character to resist the temptations of power.[5]

I would suggest that our disgust for the arrogance of dictators is only part of the story. Surely, our commitment to a free society rests also on our appreciation for the immensely valuable spontaneous discoveries that the human spirit can generate when left free. It is our admiration for individual creativity that is responsible for our reverence for the free society. So here we have both of those elements in the open-endedness of knowledge—undergirding our regard for freedom in a free society: (1) our recoil, our disgust for the arrogance of those who believe they know how to run other people's lives, and (2) our awareness, our appreciation for the propensity in human beings to continually expand what they know, what they can create.

FEE's Style

Let me turn to the third aspect of FEE's work and illustrate the significance of the open-endedness of knowledge for FEE's unique style and approach in communicating its message to the world. Here I think two points of contact ought to be noticed between the open-endedness of knowledge and FEE's characteristic style. We recall that this style involves first of all an innate courtesy, modesty, and tolerance. (No name-calling, Leonard Read taught us, no arrogance!) Second, the FEE "style" reflects a confidence, a faith, if you like, that those who can benefit from our message *will find us almost of their own accord.* They will discover us. Certainly this confidence is a remarkable feature of FEE's style.

I have one final quote from Ben Rogge, taken from a high school commencement address. He was talking to these youngsters about what they might expect of college. Ben said: "Hopefully, you will . . . come to know how little you know, in fact how little is known about man and his world by even the most knowledgeable around you. This is to say that you may come to carry with you through life a deep sense of wonder and of awe, not of what you do understand, but of the deep and mysterious processes which neither you nor anyone else fully understands."[6]

Open-endedness of knowledge is the root of FEE's modest, tolerant style. But then we said there was another aspect to that style—the confidence, the faith, that those who can benefit from our teachings, from what we have to offer will find us out, will seek us out. Listen to Leonard Read:

> Forget the "selling freedom" notion! Right method calls for concentration on the improvement of the most approachable person on earth—one's self. This is practical because accomplishment is possible. This tactic disposes of the numbers problem, the impossible—selling the masses. Do not seek followers! . . .What seek ye then? The achievement of understanding and clarity of explanation . . . so that those who wish to learn may come upon enlightenment. If you are successful, those with inquiring minds will find you out.[7]

Here, surely, we have Leonard Read thinking of the spontaneous discovery potential that will bring our audience to our doors. If we hold up the standard, if we show them what a free society means, they will find us out.

Let us return to the two apparent paradoxes that I mentioned earlier. I believe that

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it should be easy to see that these paradoxes dissolve immediately just as soon as we recall the significance of this open-endedness of knowledge. We asked how a passionate commitment to freedom could be reconciled with an attitude that refuses to go out and sell the freedom principles to others. We asked how FEE's refusal to compromise, refusal to recognize exceptions could be reconciled with its attitudes of modesty and tolerance. But these questions are easily answered.

A passionate love of freedom as well as FEE's modest style and courtesy *both* grow out of our awareness of our own fallibility and of the arrogance of those who presume to know enough to control others. We know how little we know!

If we appear uncompromising, this is because we are absolutely sure of this one thing that we know with certainty; that is, that human knowledge is open-ended and inescapably limited.

Concerning this item of knowledge, we cultivate no false modesty. We know for sure how little we know. And we know for sure how this open-endedness of human knowledge is responsible for the spontaneously coordinated operation of free markets. And we know for sure how this vitiates so much fashionable economics.

We have begun to understand the open-endedness of human knowledge—including the potential for spontaneous discovery that rests in the human breast. This understanding nourishes our conviction that what we need to do is to deepen our own understanding of the nature of a free society with full confidence that others will seek us out. We do not need to sell. We do not need to attack, to indulge in name-calling.

The Formula for FEE's Future

In a word, FEE's unique style, its unique and quietly passionate commitment to a free society, its commitment to the basic principles of sound economic understanding—all of these fit cohesively into a single integrated whole. This I submit is an important element in FEE's formula. I believe that a renewed self-appreciation for these basic principles can continue to provide stimulation and motivation for FEE's activities for many years to come.

I believe that by mobilizing the dedicated and informed enthusiasm of those many thousands of persons connected with FEE, we can proceed to translate these abstractions—and they are abstractions—into the day-to-day activities of FEE.

Let us never lose our courtesy and our tolerance. Let us never forget our distaste for the arrogance which lies at the root of all threats to a free society. Let us never lose our confidence in the intellectual alertness of a free citizenry. Let us persevere in our search for understanding in our economic studies.

We need never fear new ideas. We need never be unsure concerning new proposals, provided we appraise each one of them against our own standards and our own criteria involving leak-proof economic understanding, unified with unfailing courtesy to others in the way in which we reveal our own passionate love of freedom. Let the open-endedness of human knowledge be our inspiration and our guide as we navigate our way through a future of limitless possibilities for free human beings. □

1. Benjamin Rogge, "The Power of Tomorrow: Whither FEE?" mimeographed version of talk given to FEE Fall meeting, November 18, 1979, p. 4.
2. Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), p. 118.
3. F. A. Hayek, *Law, Legislation and Liberty, Vol. 3: The Political Order of A Free People* (Chicago: University of Chicago Press, 1979), p. 68.
4. F. A. Hayek, *Law, Legislation and Liberty, Vol. 1: Rules and Order* (Chicago: University of Chicago Press, 1973), p. 15.
5. Leonard E. Read, *Liberty: Legacy of Truth* (Irvington-on-Hudson: Foundation for Economic Education, 1978), p. 15.
6. Benjamin Rogge, *Can Capitalism Survive?* (Indianapolis: Liberty Press, 1979), p. 280.
7. Leonard E. Read, *Liberty: Legacy of Truth, op. cit.* p. 62.

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IDEAS ON LIBERTY
JUNE 2003

The True Meaning of Patriotism

Patriotism these days is like Christmas—lots of people caught up in a festive atmosphere replete with lights and spectacles. We hear reminders about "the true meaning" of Christmas—and we may even mutter a few guilt-ridden words to that effect ourselves—but each of us spends more time and thought in parties, gift-giving, and the other paraphernalia of a secularized holiday than we do deepening our devotion to the true meaning.

So it is with patriotism, especially on Memorial Day in May, Flag Day in June, and Independence Day in July. Walk down Main Street America and ask one citizen after another what patriotism means and with few exceptions, you'll get a passel of the most self-righteous but superficial and often dead-wrong answers. America's Founders, the men and women who gave us reason to be patriotic in the first place, would think we've lost our way if they could see us now.

Since the infamous attacks of September 11, 2001, Americans in near unanimity have been "feeling" patriotic. For most, that sadly suffices to make one a solid patriot. But if I'm right, it's time for Americans to take a refresher course.

Patriotism is *not* love of country, if by "country" you mean scenery—amber waves of grain, purple mountain majesty, and the like. Almost every country has pretty collections of rocks, water, and stuff that people grow and eat. If that's what patriotism is all about, then Americans have precious little for which we can claim any special or unique love. And surely, patriotism cannot mean giving one's life for a river or a mountain range.

Patriotism is not blind trust in anything our leaders tell us or do. That just replaces some lofty concepts with mindless goose-stepping.

Patriotism is not simply showing up to vote. You need to know a lot more about what motivates a voter before you judge his patriotism. He might be casting a ballot because he just wants something at someone else's expense. Maybe he doesn't much care where the politician he's hiring gets it. Remember Dr. Johnson's wisdom: "Patriotism is the last refuge of a scoundrel."

Waving the flag can be an outward sign of patriotism, but let's not cheapen the term by ever suggesting that it's anything more than a sign. And while it's always fitting to mourn those who lost their lives simply because they resided on American soil, that too does not define patriotism.

People in every country and in all times have expressed feelings of something we flippantly call "patriotism," but that just begs the question. What is this thing, anyway? Can it be so cheap and meaningless that a few gestures and feelings make you patriotic?

Not in my book.

I subscribe to a patriotism rooted in ideas that in turn gave birth to a country, but it's the *ideas* that I think of when I'm feeling

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patriotic. I'm a patriotic American because I revere the ideas that motivated the Founders and compelled them, in many instances, to put their lives, fortunes, and sacred honor on the line.

What ideas? Read the Declaration of Independence again. Or, if you're like most Americans these days, read it for the very first time. It's all there. All men are created equal. They are endowed not by government but by their Creator with certain unalienable rights. Premier among those rights are life, liberty, and the pursuit of happiness. Government must be limited to protecting the peace and preserving our liberties, and doing so through the consent of the governed. It's the right of a free people to rid themselves of a government that becomes destructive of those ends, as our Founders did in a supreme act of courage and defiance more than two hundred years ago.

Call it freedom. Call it liberty. Call it whatever you want, but it's the bedrock on which this nation was founded and from which we stray at our peril. It's what has defined us as Americans. It's what almost everyone who has ever lived on this planet has yearned for. It makes life worth living, which means it's worth fighting and dying for.

An American Spin

I know that this concept of patriotism puts an American spin on the term. But I don't know how to be patriotic for Uganda or Paraguay. I hope the Ugandans and Paraguayans have lofty ideals they celebrate when they feel patriotic, but whether or not they do is a question you'll have to ask them. I can only tell you what patriotism means to me as an American.

I understand that America has often fallen short of the superlative ideas expressed in the Declaration. That hasn't diminished my reverence for them, nor has it dimmed my hope that future generations of Americans will be re-inspired by them.

This brand of patriotism, in fact, gets me through the roughest and most cynical of times. My patriotism is never affected by any politician's failures, or any shortcoming of some government policy, or any slump in the economy or stock market. I never cease to get that "rush" that comes from watching Old Glory flapping in the breeze, no matter how far today's generations have departed from the original meaning of those stars and stripes. No outcome of any election, no matter how adverse, makes me feel any less devoted to the ideals our Founders put to pen in 1776. Indeed, as life's experiences mount, the wisdom of what giants like Jefferson and Madison bestowed on us becomes ever more apparent to me. I get more fired up than ever to help others come to appreciate the same things.

During a recent visit to the land of my ancestors, Scotland, I came across a few very old words that gave me pause. Though they preceded our Declaration of Independence by 456 years, and come from three thousand miles away, I can hardly think of anything ever written here that more powerfully stirs in me the patriotism I've defined above. In 1320, in an effort to explain why they had spent the previous 30 years in bloody battle to expel the invading English, Scottish leaders ended their Declaration of Arbroath with this line: "It is not for honor or glory or wealth that we fight, but for freedom alone, which no good man gives up except with his life."

Freedom—understanding it, living it, teaching it, and supporting those who are educating others about its principles. That, my fellow Americans, is what patriotism should mean to each of us today. □

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IDEAS ON LIBERTY
JUNE 2003

The Road to Liberty: Persuasion and Aggression

by Gene Callahan

I would like to highlight two diametrically opposed ideas that I believe can help clarify our notion of liberty. Any specific human action can be located somewhere on a scale between the extremes of *pure persuasion* and *pure aggression*. I am not contending that this is the *only* way we can evaluate human action, merely that it is a useful way.

What do I mean by persuasion? Basically, this: When engaging in persuasion, I attempt to convince you that your situation will be better, in your own eyes, if we do interact than if we do not. (To clearly differentiate that from fraud, I will note that I am using the word "persuasion" here to mean *honest* persuasion.)

For example, suppose that you and I each live on our own isolated islands, with the other person's island the only land within sight. Further, imagine that neither of us can get to the other's island due to the shark-infested waters in the area. It is quite possible that each of us might go about his business undisturbed by the existence of the other.

However, we happen to meet one day when each of us is at the shore of his own island closest to the other person's. While we chat, I mention that there are many coconut trees on my island, but that I'm getting sick of eating coconuts. You respond that on your island there are many mango trees and that you are fed up with eating mangoes. After some negotiation we agree that every day we will meet at the same place. I'll bring a few coconuts, and you will bring some mangoes. We will trade by tossing them to each other across the water. It seems obvious that each of us prefers interacting with the other to not doing so, since it is trivially easy for either of us completely to avoid the other. I am perfectly willing to leave you alone if you are uninterested in what I can offer you, and vice versa.

By contrast, if I am engaged in aggression I will attempt to force interaction on you without your consent. I will try to convince you that I have the power and will to *make your life worse* if you refuse to interact with me on the terms I propose. Again, imagine our island meeting. But now, when I discover you have mangoes on your island, I *demand* that you throw me five per day. If you do not, I tell you, I will lay in wait and kill you the next time I see you, perhaps by running you through with a spear.

There certainly is an element of persuasion in such a threat: I must persuade you that I really intend to kill you if you don't acquiesce, and that I have the ability to act on that intention. Yet the difference between our

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two examples is immense. In the case of the mango-coconut exchange, I am quite willing to leave you alone to go about your business, as if we had never met, should my argument for exchange fail to persuade you. In the mangoes-or-death case, I am *demanding* that we interact. If you will not do so on the terms I set, I intend to interact with you by making your situation significantly worse than if you had never laid eyes on me. I don't try to convince you that you would be better off than you are now if you give me mangoes, but rather that if you *don't* give me mangoes I can make you much *worse off* than you are now.

More relevant to the world in which most of us actually live, consider two approaches I might take when trying to get my neighbor to come hear my next lecture. On the one hand, I may attempt to persuade her that she would like it. I can try to convince her that I have her interests at heart, that the talk will be scintillating, or that she will learn to understand economics better if she comes. (Of course, if I know these things are false I am engaged in fraud.)

As long as I am willing to leave her alone when she says, "Buzz off, loser," I am engaged in persuasion. I don't intend to make her life worse if she ignores me, but to make it better if she goes along with my suggestion.

On the other hand, I could tell her that if she doesn't come, I will have her killed. Then I am not suggesting to her that her life will be better if she interacts with me; I am saying that she has no choice *but* to interact with me, and that coming to the talk will be the least unpleasant interaction she can choose.

What could be clearer than the enormous difference between these two ways of relating to others? Persuasion and aggression imply fundamentally different conceptions of other people: When I engage in persuasion I regard the other person as a free, intelligent actor, much as I regard myself. When employing aggression I regard the other as merely a means I might manipulate to achieve to my ends, much as I would regard a stick or a rock.

The Forms of Aggression

I conceive of three basic forms of aggression: stealth, fraud, and committing or threatening violence.

I could aggress against you using stealth, for example, by sneaking into your house while you were sleeping and stealing your food. Rather than persuading you to interact with me, I would be hiding the fact that we did interact. You would not be able to decide whether or not to interact with me, because if I have my way you never will know that we *did* interact.

This is different from the case where we interact in some sense, but our interaction is so slight that you don't notice it. For example, if I barbecue in my yard, a few molecules of smoke might blow into your yard and be inhaled by you without your ever being aware that it happened. It is also distinct from a case where I interact with you anonymously but to your benefit, as when I finance a college scholarship while withholding my name.

I fraudulently aggress against you if I hide my real intention while persuading you to interact with me. Fraud certainly involves persuasion. But rather than persuading you that A will be to your benefit, then delivering A, I persuade you that you'd like A while secretly planning to deliver B.

For example, in the island scenario, I might propose that we exchange coconuts and mangoes. However, rather than tossing whole coconuts to you, I tie back together the shells of coconuts from which I already have eaten the meat and drunk the milk. I persuade you to exchange coconuts for mangoes, but what we actually exchange is coconut *shells* for mangoes. The problem here is that I don't allow you to choose how to relate to me because I have deceived you about my plans.

Finally, I might aggress against you by employing violence or the threat of violence, such as my threatening to skewer you if you don't bring me mangoes.

I believe that the view of persuasion and aggression adopted here can be helpful in clarifying disputes over what types of action are inherently aggressive. For example,

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socialist anarchists, who like libertarians claim to be against aggression, often contend that the ownership of capital goods and the payment of a wage for labor are inherently aggressive.

But let us consider again the island castaways. Imagine that you have built a boat that you use to go fishing. You employed your own labor and whatever materials you found on your island—something I could just as well have done on mine. On discovering this, I demand that you bring me some of your catch each day. You refuse, instead suggesting that if I bring you coconuts, you will be happy to trade fish for them or to let me use the boat for a while.

In response I protest that you are aggressing against me, using the "power" you have as an owner of a capital good (your boat) to "exploit" the labor I have expended in picking coconuts. If the view of persuasion and aggression I'm proposing is sensible, then such a claim is absurd. You are perfectly willing to leave me alone and allow me to continue my life as though we had never met. After all, if not for your existence, then there would *be* no boat. You don't *demand* that I use your boat or attempt to force me to labor to supply you with coconuts. You only require that *if* we are to interact, it must be on terms with which we both agree.

Furthermore, if you do agree to my terms for exchanging coconuts for fish, then it is clear that you must think you will be better off exchanging with me than not doing so. After all, I left open to you the opportunity to ignore my existence. If you trade with me nevertheless, you believe your situation is improved by doing so.

Of course we can think of cases in which the ownership of capital goods and the employment of wage labor *are* involved in aggression. However, the example of the boat demonstrates that there is no *inherent* aggression in the ownership of capital goods or the employment of wage labor.

Limits on Government Action

The distinction between persuasion and aggression sheds light on the justice of various forms of political organization. If the purpose of government is to prevent aggression against its citizens, then it is certainly not justified in initiating aggression against them itself. Many people recognize this principle in an abstract way, but are confused as to what concrete actions it forbids the government from performing. However, the same sort of analysis applied above to individual actions can be applied to those of government agents, who are, after all, humans like the rest of us.

If the government employs or threatens violence against those who have committed acts of aggression, then it is merely fulfilling its avowed purpose. (As Stephan Kinsella's "estoppel theory" demonstrates, someone who has committed an act of aggression against you has refused to recognize you as an individual with the freedom to make your own choice about whether to interact with him. Therefore, to the same extent, he has forfeited *his* right to claim such treatment for himself.*)

But if the government initiates aggression against someone who simply has not been persuaded to go along with a particular project favored by others (even if those others are in the "majority"), then it violates its own charter. I believe we can persuade people of this with simple examples.

For instance, I recently was talking with a friend. When he asked me about libertarianism, I told him the following tale:

Imagine that you, Dick, Mark, and I go camping. While climbing a mountain to the campsite, you, Dick, and I decide to build a lean-to so that we have a sheltered spot to rest in on the way down.

"Come help us, Mark," we shout to him.

"No thanks, I'll go on ahead and set up the campsite," he replies.

"No you won't, Mark."

"What do you mean, no I won't?" he asks.

"What we mean is, you *have* to help us. We're the majority. We voted, and we

*N. Stephan Kinsella, "Punishment and Proportionality: The Estoppel Approach," *The Journal of Libertarian Studies*, Spring 1996, www.mises.org/journals/jls/12_1/12_1_3.pdf.

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decided that everyone *must* contribute to our project. And, you see, we're prepared to kill you if you don't."

"Kill me?"

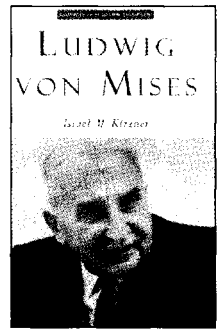
"Yes, if we must. It's not that we *want* to kill you. At first, if you resist, we'll just rough you up a bit. But if you continue to be obstinate, eventually we will kill you. You see, you'd be defying the will of the people."

"Now," I asked my friend, "how is this essentially different from the government's extracting taxes from people uninterested in football to build a stadium?"

He pondered my story for a minute, then said, "Yeah, it really isn't different, is it?" At that moment, he later told me, he became convinced of the essential soundness of libertarian political theory.

We don't have to persuade people that initiating aggression generally is not acceptable. They already know that. We only need to persuade them that it is not acceptable even when the government does it. □

Ludwig von Mises: The Man and His Economics



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JUNE 2003

The Unsustainable Politics of "Natural Capitalism"

by Pierre Desrochers

In their bestseller *Natural Capitalism,* a book so heartily praised by environmentalists and business executives that its American edition sold out before its publication date, authors Paul Hawken, Amory Lovins, and L. Hunter Lovins indict traditional capitalism as a "financially profitable" but "nonsustainable aberration in human development" that is rapidly depleting our unrecoverable natural capital.[1] To escape this predicament, the authors recommend, among other things, massive taxation and complex regulation of everything they dislike, from nonrenewably generated electricity and fossil fuels to chlorine and pesticides.

Despite being described in their book dust-jacket blurbs as "three of the world's best brains," Hawken and the Lovinses fail to notice that some of their evidence actually warns against their politically driven prescription. For example, they identify a number of American policy failures that have resulted from over "two hundred years of policies in taxes, labor, industry, and trade meant to encourage extraction, depletion and disposal." As they point out: "Hundreds of billions of dollars of taxpayers' money are annually diverted to promote inefficient and unproductive material and energy use." These range from "perverse subsidies" to the primary sector in mining, oil, coal, fishing, forest industries, and agriculture that degrade soil fertility, use wasteful amounts of water and chemicals, and discourage the use of recycled material. Meanwhile, modern American agriculture features various input subsidies, price supports, production quotas, and use-it-or-lose-it western water laws that result in a Soviet-style system which rewards participants for how much they manufacture or consume rather than how efficiently they produce.

So could it be that our modern economies would have been more "sustainable" if politicians had not been busy distorting markets for several decades? Much evidence suggests that this might indeed have been the case.

The authors suggest that reducing the wasteful throughput of materials can be accomplished by "redesigning industrial systems on biological lines that change the nature of industrial processes and materials, enabling the constant reuse of materials in continuous closed cycles." In other words, one company would feed on the waste of another.

Much historical evidence, however, suggests that market economies were behaving that way long before Hawken and the Lovinses were born. Actually, many books and monographs were written on loop-closing several decades ago.[2] In virtually all instances, people familiar with the inner workings of factories saw the creation of wealth out of industrial waste, whether

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within the confines of a firm or through trade in the market, as an important way of gaining a competitive advantage.

For example, the American authors of the *Illustrative and Descriptive Catalog of Whitin Cotton Waste Machinery and of Various Systems of Working Cotton Waste* marketed their machines by making this argument in 1914: "The economical and profitable disposal of the waste products of a cotton manufacturing plant has become a problem of the greatest importance. . . . The reclamation of the waste products of a mill affords simple means for the manufacturer to reduce his manufacturing expense to a minimum."[3]

The German engineer Ernest Hubbard similarly wrote in the preface of his book *The Utilisation of Wood-Waste,* first published in 1902: "The rational utilisation of waste products is at all times important, but as our industries become more and more developed the working up of the waste or bye-products [sic] which may be produced in any process becomes absolutely essential from an economical standpoint."[4] Looking to the recent past, the journalist Frederick Ambrose Talbot wrote in 1920: "To relate all the fortunes which have been amassed from the commercialization of what was once rejected and valueless would require a volume. Yet it is a story of fascinating romance and one difficult to parallel in the whole realm of human activity."[5]

Much evidence suggests that market incentives rewarded firms that found ways to turn their waste into valuable commodities. Meanwhile, the vast majority of people benefited from these practices, as finding commercial uses for byproducts typically led not only to improved surroundings but also to lower prices. However, as will now be discussed, less-innovative firms were severely hurt by this new competition, and they quickly tried, often successfully, to secure special privileges through the political process. A case in point is American antitrust law, which Hawken and the Lovinses deem to have been important in curbing "flagrant . . . abuses of market power in the early part of the [twentieth] century."

Politics against Creativity

While many commentators today hold what could be called the "public interest" interpretation of antitrust, Hawken and the Lovinses might be surprised to learn that some historians and economists who are more familiar with its origins do not share this belief.[6] One of the first economic sectors targeted by self-proclaimed "trustbusters," meatpacking, illustrates how the political process has often been used to penalize creative firms for the benefit of their less-innovative competitors.

While this is now long forgotten, American meatpacking was a widely decentralized industry until the second half of the nineteenth century, owing mostly to the lack of adequate conservation and transport technologies. The advent of a national railway network and refrigeration, however, eventually paved the way for the rise of the Chicago packers whose strength lay not only in their ability to cut costs by integrating forward in marketing and backward in purchasing, and by obtaining their own materials directly. To a large extent, it lay also in their unparalleled capacity to turn byproducts into valuable commodities.

As one contemporary observer put it: "In the great beef slaughtering and packing establishments at Chicago . . . economies are effected which are not possible when this industry is carried on, as usual, upon a very small scale. . . . Every part of the animal—hide, horns, hoofs, bones, blood, and hair—which in the hands of the ordinary butcher are of little value or a dead loss, are turned to a profit by the Chicago packers in the manufacture of glue, bone-dust, fertilizers, etc.; and accordingly the great packers can afford to and do pay more for cattle than would otherwise be possible."[7]

Actually, Chicago's meatpacking district came very close to Hawken and the Lovinses' ideal of "industrial parks whose tenants will constitute an industrial ecosystem in which one company will feed upon the nontoxic and useful wastes of another." As the American economist Rudolf Clemen observed in 1927, there grew around

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mammoth cattle-killing plants a number of separate satellite industries, which bought the unfinished byproducts of the plants and transformed them into many different products:

> This process of integration in the packing industry and its by-products differs from what is normally understood as integration by the professional economists. While many of the products . . . are manufactured by certain of the national packers themselves, or through subsidiary corporations such as leather and tanning companies and fertilizer companies, in many instances by-products processed to a certain degree within the packing industry proper are transferred to other subsidiary industries over which individual packers have no control, for further elaborate and expensive processing into final, highly finished articles.[8]

Among other linkages, large refineries took the non-uniform steam-rendered lard of packers, refined and bleached it, and sold it on the open market. Soap factories bought various grades of tallow. Glue works made their products from bones, sinews, and various other materials. Manufacturers used neutral lard and oleo oil from packing plants to make oleomargarine. Fertilizer plants carted off the pressed tankage and raw or pressed blood, dried and sold it as such, or manufactured mixed fertilizer.

According to all credible sources, the Chicago packers received less from the sale of dressed-beef carcass than the amount they paid for the live animal. However, this loss was more than covered, and a reasonable profit reaped, by the sale of hides and other waste materials that were turned into valuable byproducts on an unprecedented scale. The revenue derived from these byproducts, in turn, led to a significant decline in the retail price of meat, which hurt local butchers and retailers unable to compete with their more-efficient competitors.

In response, the butchers engaged boycotts. The protest movement took a more organized form in 1886 with the formation of the Butchers' National Protective Association (BNPA) in St. Louis. As the environmental historian William Cronon points out, while the stated goal of the association was to "secure the highest sanitary condition" for consumers, public health was in fact "a convenient way of putting the best face on a deeper and more self-interested economic issue."[9] Indeed, as economists Donald Boudreaux and Thomas DiLorenzo have put it, the most plausible explanation for the adoption of the first antitrust legislation in Missouri in 1889 is an attempt by politically powerful local producer groups, mostly independent retail butchers, to shield themselves from the intense competitive pressure exerted by the Chicago packers.[10]

Saccharin Story

The history of American meatpacking was hardly unique. The case of saccharin provides another illustration.[11] Saccharin was discovered in 1879 by Constantin Fahlberg, a German-educated postdoctoral fellow, while conducting research at Johns Hopkins University. Fahlberg's discovery came as he was working with Hopkins's first appointee in chemistry, Ira Remsen, on the reactions of a class of coal tar byproducts (toluene sulfamides). Fahlberg noticed one day an unaccountable sweetness to his food, which he traced back to a compound that accidentally got on his fingers. The two researchers jointly published their discovery in the *American Chemical Journal* in 1879 and 1880, and in a German journal in 1879.

Remsen quickly moved on to other things, but Fahlberg saw the potential of a low-cost sweetener whose production would be much more reliable than sugar cane. He soon changed the name of the compound from benzoid sulphinide to saccharin, which is derived from the Latin word *saccharum* (sugar). Fahlberg later moved back to Germany where he obtained financial backing, went into business with his uncle Adolph List—who had previous connections in the sugar industry—and eventually put his product on the market in 1900.

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Saccharin was initially marketed as a sweetener for diabetics, but because of its low cost it was quickly used by other consumers and industries as well. Soon after its introduction, saccharin had 9 percent of the German sweetener market. It experienced a precipitous decline, however, when beginning in 1902, a powerful central and east European lobby of beet-sugar producers persuaded the authorities to restrict the use of saccharin to the pharmaceutical industry. This prohibition led to a booming black market, increasingly supplied from Switzerland, one of the few European countries in which saccharin manufacturing and consumption remained legal. Saccharin has ever since been plagued by similar lobbying efforts by the sugar industry in many countries, including the United States and Canada, despite the absence of any conclusive evidence as to its harmful effect. This ensures that more land than necessary is cultivated and that more energy is used for transporting and refining raw sugar than would otherwise be the case.

Politics and the Status Quo

While sustainable-development theorists typically indict market processes for their alleged failure to create wealth out of industrial waste, much evidence indicates that most of today's "unsustainable practices" were actually brought about through the political process by well-established producers against more innovative new competitors. Because innovative business behavior subverted the status quo, defenders of the status quo soon subverted elected officials, which often led to the adoption of counterproductive measures and environmental harm.

While Hawken and the Lovinses correctly identify a number of political barriers to more sustainable practices, they do not pause to wonder how failure on such a grand scale occurred and is still perpetuated. They nonetheless hint at the right answer when they point out that Washington, D.C., is host to "thousands of trade organizations, 60,000 lawyers and 90,000 lobbyists who spend $100 million a month in direct lobbying expenses" and that some corporations "benefit from subsidies, externalizing their costs, avoiding transparency, and monopolizing markets."

Perhaps it will eventually dawn on them that most of the money spent in lobbying for the benefit of special-interest groups typically leads to a less-efficient use of resources. When that happens, they will have gone a long way toward realizing that free markets have always been the best road toward sustainable development and that political interventions have typically turned out to be roadblocks. □

1. Paul Hawken, Amory Lovins, and L. Hunter Lovins, *Natural Capitalism: Creating the Next Industrial Revolution* (Boston: Little, Brown and Company, 1999), p. 5. See their website at www.natcap.org/.

2. For more detail on this issue, see Pierre Desrochers, "Is 'Greed' Green?" *Ideas on Liberty*, April 2003, and "Saving the Environment for a Profit, Victorian-Style," *Ideas on Liberty*, May 2003.

3. Whitin Machine Works, *Illustrated and Descriptive Catalog of Whitin Cotton Waste Machinery and of Various Systems of Working Cotton Waste* (Whitinsville, Mass.: Whitin Machine Works, 1914), p. i.

4. Ernest Hubbard, *The Utilisation of Wood-Waste*, 3d ed. (London: Scott, Greenwood & Son, 1920), p. v.

5. Frederick Ambrose Talbot, *Millions from Waste* (Philadelphia: J. B. Lippincott Company, 1920), pp. 17–18.

6. For an introduction to the topic and a summary of further readings, see Donald Boudreaux and Thomas DiLorenzo, "The Protectionist Roots of Antitrust," *Review of Austrian Economics*, vol. 6, no. 2, 1993, pp. 81–96; Alfred D. Chandler, "Government Versus Business: An American Phenomenon," in J. T. Dunlop, ed., *Business and Public Policy* (Boston: Harvard University Graduate School of Business Administration, 1980), pp. 1–11; William Cronon, *Nature's Metropolis: Chicago and the Great West* (New York: W.W. Norton & Company, 1991); and Gary Libecap, "The Rise of the Chicago Packers and the Origins of Meat Inspection and Antitrust," *Economic Inquiry*, April 1992, pp. 242–62.

7. David A. Wells, *Recent Economic Changes and Their Effect on the Production and Distribution of Wealth and the Well-Being of Society* (New York: D. Appleton and Company, 1889), pp. 98–99.

8. Rudolf A. Clemen, *By-Products in the Packing Industry* (Chicago: University of Chicago Press, 1927), p. 27.

9. Cronon, p. 242.

10. Boudreaux and DiLorenzo.

11. The information on saccharin is mostly taken from Tamás Szmrecsányi, "Review of Christopher Maria Merki, *Zucker gegen Saccharine: zur Geschichte der Küslichen Süssstoff*" (*Sugar versus Saccharin: On the History of Artificial Sweeteners*), *World Sugar History Newsletter*, June 1997.

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The Regulatory Conundrum

When Robert Johnson, founder of Black Entertainment Television, wanted a $190,000 Ferrari 360 Spider, he went to a German dealer, since it would have taken two to three years to obtain one from a domestic dealer. But it had to be modified to meet U.S. environmental and safety standards. That took 15 months.

If this were the only inefficient, silly, wasteful regulation, there'd be little cause for concern. But Washington is a regulatory behemoth, supplemented by state monsters of various sizes.

Last year Clyde Wayne Crews of the Cato Institute published his annual "Ten Thousand Commandments." For the first time in years there was modest good news. For instance, the *Federal Register* in 2001 ran 64,431 pages, down 13.2 percent over the last full year of the Clinton administration. Also in 2001, 4,509 new regulations were working their way through the system, a reduction of 4 percent over the year before.

Still, the news is good only relative to how bad it has routinely become. The regulatory burden remains staggering. Perhaps the best estimate, from analysts W. Mark Crain and Thomas D. Hopkins, is that federal regulations cost the American people $854 billion, roughly 46 percent of the total $2 trillion in federal outlays this year. That's about 8.4 percent of GDP.

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It's almost as much as collected by both the corporate income tax and the personal income tax. Per family it comes to $7,410. That means government is basically taking another fifth of the median two-earner income after direct taxes have been paid.

Moreover, the claimed advantages are often impossible to verify. For instance, the American Enterprise Institute and Brookings Institution's Joint Center for Regulatory Studies estimates that roughly half of environmental regulations saves lives, but often at costs far disproportionate to the likely benefits achieved. And, incredibly, in about half the cases "regulations specifically aimed at saving lives actually resulted in a net increase in deaths," according to the Center's Robert Hahn and Patrick Dudley.

In another Center publication, Hahn and Cass Sunstein of the University of Chicago Law School, review some of the most perverse rules. The Environmental Protection Agency's municipal solid-waste regulations generate costs of $100 million annually with no benefits. Pulp and effluent guidelines start at a net zero benefit at best and range up to a $150 million annual loss. The EPA's ozone standards are already wracking up annual net losses in the hundreds of millions, with the potential of exceeding $9 trillion in a few years.

Some regulations are completely irrational. Consider Corporate Average Fuel Economy (CAFE) standards, by which the federal government mandates that auto manufacturers achieve an arbitrary level of fuel economy. It's not clear that CAFE even

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saves energy. After all, raising fuel economy lowers the marginal cost of driving. Moreover, by forcing people into smaller autos, which lose in accidents with bigger ones (as well as vans, SUVs, and trucks), CAFE kills.

John Graham, formerly of Harvard University and now head of the Office of Management and Budget's Office of Information and Regulatory Affairs (OIRA), and Robert Crandall of Brookings have estimated CAFE's annual death toll at between 2,200 and 3,900. In the mid-1990s the Competitive Enterprise Institute figured that between 2,700 and 4,700 people were dying because of CAFE.

Even when some benefits might occur, there remains the problem of opportunity costs. Where an existing life is at stake it is tempting to say that every life is priceless. But when we are dealing with risks, no life is priceless. Every expenditure involves a trade-off. The true cost of any activity is its opportunity cost, the value of forgoing some other activity. To spend $40 billion to save one potential life means that $40 billion is not available to improve roads and traffic signals or to do something else

Americans desperately need a wide-ranging program of regulatory reform. The executive branch can help. Graham has emphasized the importance of weighing costs as well as benefits and of considering "nonquantifiable factors such as fairness, privacy and personal freedom." As part of its budget, the administration proposed additional changes in how benefits and costs are balanced. Agencies would have to compare different strategies for achieving the same ends, better address the issue of risk, and offer several estimates of benefits and costs for expensive rules based on "uncertain science."

Crews, Hahn, and others propose a variety of other steps that would pare and improve regulatory policy. They start with reducing congressional delegation of power to regulatory agencies, further streamlining legislative procedures to overrule regulations, creating a congressional office of regulatory assessment (as an analog to the Congressional Budget Office), and setting statutory standards for regulatory disclosure, assessment, and oversight.

Just Say No

However, the most important "reform" would be the willingness to say no. Not every problem is worth regulating. Some cannot be solved by regulating. And many are not worth the expense of doing so. Besides, the free market is the most powerful "regulator" of all.

Reform in Washington isn't enough. States have taken on an increasingly aggressive, and counterproductive, role. Particularly problematic is the increasing tendency of state attorneys general, almost all governor wannabes, to try to set policy independent of the federal government, such as their jihad against Microsoft.

People routinely refer to America as a free country. And compared to Europe, it is. There a frustrated European Commission recently declared that only through more economic reform could the continent catch up with America. Yet in 2002 the Washington-based Americans for Tax Reform pegged July 1 as "Cost of Government Day"—when we finally stopped paying to fund and comply with government. Of the 181 days spent working for the government, 38 went to cover the cost of federal regulation and 23 for state rules.

Then there's the loss of simple personal freedom. For instance, Americans are not allowed to buy Kinder Surprise Eggs, chocolate eggs with tiny toys inside, which are available in Europe and elsewhere. Fanciers have to import them illegally through the Internet since both the Consumer Product Safety Commission (the toys pose a choking danger) and the Food and Drug Administration (the toys are an "embedded" non-food item) ban them here.

America, though it possesses the world's leading economy, nevertheless faces some daunting problems. In such a world, it makes no sense to waste so many resources on trivial concerns. □

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Bastiat, Socialism, and the Blank Slate

by Jim Peron

"It is evident," the French economist and parliamentarian Frédéric Bastiat wrote a century and a half ago, "that the socialists set out in quest of an artificial social order only because they deemed the natural order to be either bad or inadequate; and they deemed it bad or inadequate only because they felt that men's interests are fundamentally antagonistic, for otherwise they would not have recourse to coercion. It is not necessary to force into harmony things that are inherently harmonious."[1]

Nobel laureate F. A. Hayek made a similar point: "Much of the opposition to a system of freedom under general laws arises from the inability to conceive of an effective coordination of human activities without deliberate organization by commanding intelligence. One of the achievements of economic theory has been to explain how such a mutual adjustment of the spontaneous activities of individuals is brought about by the market, provided that there is a known delimitation of the sphere of control of each individual."[2]

Bastiat spoke of a "natural harmony" between men, a "natural and wise order that operates without our knowledge."[3] Again this is similar to Hayek's observation, drawn from the Scottish Enlightenment thinker Adam Ferguson, that social order is the result of "human action but not of human design."

Bastiat argued that his views were based on reality and not on some ideological view of how man ought to be. The major difference between economists—by which he meant liberal market economists—and socialists was: "The economists observe man, the laws of his nature and the social relations that derive from these laws. The socialists conjure up a society out of their imagination and then conceive of a human heart to fit this society."[4]

This is the crux of difference between advocates of the freedom philosophy and advocates of socialism. The ability to imagine a perfect world inspires the socialists and their sympathizers. During Robert F. Kennedy's 1968 presidential campaign, a poster quoted him: "Some people see things as they are and ask 'why?'; I dream of things that never were and ask 'why not?'" The quote, commonly attributed to Kennedy, was borrowed from the British playwright George Bernard Shaw, a leading Fabian socialist.[5]

Dream-making helps explain a striking feature on the left—while advocating love and peace it promotes hatred and war. Bastiat said that while collectivists "have a kind of sentimental love for humanity in their hearts, hate flows from their lips. Each of them reserves all his love for the society that he has dreamed up; but the natural society in which it is our lot to live cannot be destroyed

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soon enough to suit them, so that from its ruins may rise the New Jerusalem."[6] Aldous Huxley made the same point when he noted that "faith in the bigger and better future is one of the most potent enemies to present liberty: for rulers feel themselves justified in imposing the most monstrous tyranny on their subjects for the sake of the wholly imaginary fruits which these tyrannies are expected to bear some time in the distant future."[7]

This conflict between Bastiat and the socialists couldn't be more stark. For him, man was born with specific needs. Nature endowed him with certain faculties, and only by the application of such faculties is man able to sustain himself. For the socialist, man is merely, as Steven Pinker titles his new book, a "blank slate," which can be written on as the planners wish in order to achieve the New Jerusalem. Pinker notes that Marx and Engels "were adamant that human nature has no enduring properties. It consists only in the interactions of groups of people with their material environments in a historical period, and constantly changes as people change their environment and are simultaneously changed by it. The mind therefore has no innate structure but emerges from the dialectical process of history and social interaction."[8]

Mao Zedong wrote: "A blank sheet of paper has no blotches, and so the newest and most beautiful words can be written on it, the newest and most beautiful pictures can be painted on it."[9] Soviet writer Maxim Gorky said that to Lenin the working classes are "what minerals are to the metallurgist."[10]

Bastiat, in his last work, *The Law,* understood this early on: "Socialists look upon people as raw material to be formed into social combinations."[11] The variant of socialism is unimportant. As Pinker points out, "Nazism and Marxism shared a desire to reshape humanity. 'The alteration of men on a mass scale is necessary,' wrote Marx; 'the will to create mankind anew' is the core of National Socialism, wrote Hitler."[12] The gradualist democratic socialist Shaw saw things the same way: "There is nothing

Frédéric Bastiat

that can be changed more completely than human nature when the job is taken in hand early enough."[13]

This desire to recreate the world according one's own wishes and dreams has been at the root of collectivist thinking from the start. Jean-Jacques Rousseau, seen by many as the founding father of the left, admitted this tendency in himself. But it is one thing to dream of a new world and another to actually try to create that world. Bastiat was correct in noting that such a tendency reveals a hatred of man as he is. Of course, this tendency is not confined to the left.

Robert Owen, the man many credit with coining the term "socialism," was clearly an advocate of remaking humanity to create utopia. "Any general character, from the best to the worst, from the most ignorant to the most enlightened, may be given to any community, even to the world at large, by the application of the proper means; which means are, to a great extent, at the command and under the control of those who have influence in the affairs of men." This utopia, Owen said, "could be attained only [through] the scientific arrangement of the people."[14]

Owen believed in the blank slate. For him no human being "is responsible for his will and his own actions." Instead "his whole character—physical, mental and moral,—is

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formed independently of himself."[15] This led Owen to conclude that "it is futile to call individuals to account for their behavior. Instead, society should recognize its power to shape each of its members into a person of high character."[16] If Owen were allowed to "scientifically" arrange people, "There will be no cruelty in man's nature, the animal creation will also become different in character." The result would be a "terrestrial paradise . . . in which harmony will pervade all that will exist upon earth."[17]

Like many utopian dreamers, Owen spent hours planning how he could manipulate humans into becoming a super race. He used his vast fortune to build a community along socialist lines and promised that the result of his social engineering would be "men and women of a new race, physically, intellectually and morally; beings far superior to any yet known to have lived upon the earth."[18]

Owen's experiment failed dismally. Men and women of ability avoided his community, but those seeking a handout flocked to it. New Harmony revealed little harmony and a great deal of conflict. It collapsed after Owen could no longer subsidize it with his own wealth.

Marxists and Nature

Hard-core Marxists simply dismissed nature. In the Soviet Union the study of genetics was banned as a fascist enterprise. Instead, science interpreted through Marxist-Leninist lenses was imposed. "Marxism claims, above all, to be a 'scientific' philosophy, one which applies the principles of science to politics and science," the British journalist Jasper Becker wrote.[19] Marxists believed their ideas were the one true "science" and the core science at that. Any other alleged science was interpreted in accordance with political ideology. Trofim Lysenko, the Marxist who ran Soviet science for decades, "rejected the 'fascist' theories that plants and animals inherited characteristics which selective breeding can develop. Lysenkoists believed that, on the contrary, environmental factors determine the characteristics of plants and animals. Just as communists thought that people could be changed by altering their surroundings, so Lysenko held that plants acquired new characteristics when their environment is changed."[20]

In his book *Heaven on Earth,* Joshua Muravchik notes that many socialists believed that nature, manipulated according to socialist political theory, could create a new paradise. The early French socialist "Charles Fourier went further, predicting the domestication of the lions and whales whose strength would free humans from most work."[21]

Francis Bacon said, "Nature, to be commanded, must be obeyed." For the Marxists, nature, or reality, was what one dreamed not what actually existed. The entire world was theirs to remake in their own image, according to their own whims. Had the world listened to Bastiat a century and a half ago, much human misery could have been avoided. □

1. Frédéric Bastiat, *Economic Harmonies* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), p. xxiv.
2. F. A. Hayek, *Studies in Philosophy, Politics and Society* (London: Routledge Kegan Paul, 1967), p. 167.
3. Bastiat, p. 6.
4. Ibid., p. xxv.
5. Steven Pinker, *The Blank Slate: The Modern Denial of Human Nature* (New York: Viking, 2002), pp. 287–88.
6. Bastiat, p. xxiv.
7. Quoted in John Jewkes, *Ordeal by Planning* (London: Macmillan, 1948) p. 106.
8. Pinker, p. 155.
9. Ibid., p. 156.
10. Ibid.
11. Frédéric Bastiat, *The Law* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1850]), p. 31.
12. Pinker, p. 157.
13. Ibid.
14. Quoted in Max Beer, *A History of British Socialism,* vol. I (London: G. Bell and Sons, Ltd., 1911), pp. 164, 171.
15. Quoted in Joshua Muravchik, *Heaven on Earth: The Rise and Fall of Socialism* (San Francisco: Encounter, 2002), p. 37.
16. Ibid., p. 37.
17. Ibid., pp. 38, 39.
18. Ibid., p. 25.
19. Jasper Becker, *Hungry Ghosts: Mao's Secret Famine* (London: John Murray, 1996), p. 61.
20. Ibid., p. 65.
21. Muravchik, p. 29.

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Project Labor Agreements: Economic Illiteracy 101

by Steven Greenhut

Perhaps it's the result of a dumbing-down of the American citizenry, but these days economic debates are waged with the most illogical premises.

For instance, in recent weeks news stories have discussed plans by some California cities to use tax dollars to build power plants, rather than to keep buying power from the quasi-private utility companies. The rationale: Cities don't pay taxes and don't need to make profits, so they can generate electricity more cost-effectively than Southern California Edison. No one even thought to question that premise.

Now if that were true, governments ought to be able to provide food, housing, and automobiles more cost-effectively than the private sector. The idea is called socialism. Yet in public-policy debates, this debunked ideology is gaining ground, despite what everyone supposedly has learned since the fall of the Berlin Wall.

"From the very beginnings of the socialist movement and the endeavors to revive the interventionist policies of the precapitalistic ages, both socialism and interventionism were utterly discredited in the eyes of those conversant with economic theory," wrote Ludwig von Mises in his 1956 book, *The Anti-Capitalistic Mentality*. "But the ideas of the immense majority of ignorant people are exclusively driven by the most powerful human passions of envy and hatred."

In other words, the more economically illiterate the population, the better off the economic interventionists will be. Throw in normal human passions of envy and hatred, and sound economic thinking goes out the window. Grievous examples are all around us.

It's no surprise that organized labor has been on the cusp of economic illiteracy since the early stages of the labor movement, exploiting the passions that Mises describes. Work rules based on seniority rather than achievement, support for government-mandated minimum wages and labor standards to reduce competition from non-organized workers, and the collection of mandatory union dues from anyone who wants to work in a union-dominated industry are among the counterproductive or coercive union policies most Americans take for granted.

But as union membership declines throughout the private sector in the United States, union leaders are looking for new and innovative ways to gin up their dwindling ranks. They are having startling success, thanks to the increased amount of dollars flowing to the public sector. By imposing what are known as project labor agreements (PLA) on municipalities that hand out contracts for airports, roads, or other public-works projects, unions can bypass most of their competitors.

It's quite simple, and strikingly coercive. Organized labor meets with city councils or county boards of supervisors and offers a

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promise they cannot refuse. Sign an agreement that requires all successful bidders on public-works projects to use union-only labor, and unions won't organize picket lines or fund their political opponents.

The typical PLA, according to the nonunion Associated Builders and Contractors (ABC), includes the following elements:

- Workers must join the union or pay union dues even if they have no desire to do so;
- Construction companies with winning bids must lay off their non-union work force and hire all new employees through the union hiring hall, based on the seniority system;
- Companies must contribute to union health and retirement programs even if the workers are unlikely to join the union and ever see a scrap of those benefits;
- Companies must use union apprentices rather than recognize non-union training programs and adopt restrictive union work rules, job classifications, and arbitration procedures.

Advocates for PLAs argue that these agreements are not unfair because non-union contractors are free to bid on the projects. Indeed they are, but if they offer the accepted low bid, they must conform to the rules above and become de facto union employers.

Where's the Benefit?

This is where Economic Illiteracy 101 comes in. Unions convince local officials that imposing these monopoly agreements on public-works contracts are in the best interest of government budgets and employ the soundest of economic reasoning.

Most of us can understand the dynamics of the situation. In Orange County, California, where I work, the Republican-dominated county Board of Supervisors embraced a PLA for all county public-works projects to win union political support for a now-defunct airport plan. This shows that unions will use a variety of political pressure points to impose PLAs on taxpayers.

In Orange County, 80 percent of the workforce is non-union, which means that a small number of contractors are likely to bid on any project, although out-of-county contractors are free to bid. A local survey revealed the cost of an ongoing maintenance contract at the county-run airport increased about 20 percent the year after the PLA was signed, mainly due to a lower number of bidders. That figures. Most non-union contractors are unwilling to become de facto union contractors simply to get some public-works dollars, especially when the private economy is booming, which means fewer bidders and higher prices.

In January, the Beacon Hill Institute in Massachusetts completed one of the more extensive looks at the costs imposed by public-works PLAs. (Some private projects use PLAs also, but ultimately private projects must compete in the marketplace.) Their results were stunning.

"In our analysis of 52 school construction projects undertaken in the Greater Boston area since 1995, we find that costs are substantially higher when a school construction project is executed under a PLA. After adjusting the data for inflation . . . and after controlling both for the size of projects and for whether they involve new construction or renovations, we find that the presence of a PLA increases project costs by $31.74 per square foot (in 2001 prices) relative to non-PLA projects. This price differential represents 17.3 percent of the cost ($184 per square foot) of the average PLA project and amounts to an average of more than $4.1 million out of the $24.2 million cost per school."

What would one expect to happen after reducing competition?

Yet at a recent board meeting of a Santa Ana, California, community-college district that's looking to spend $332 million from a recently passed facilities bond, the majority of board members asked the chancellor to begin negotiating a PLA with local trades unions. They insisted that it will save costs for hard-pressed taxpayers by reducing the

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possibility of strikes and ensuring on-time completion. More localities nationwide are taking similar actions.

But since when do non-union contractors get hit by strikes? How can encouraging more unionization lead to fewer strikes?

"PLAs are rationalized on the basis that they buy labor peace and lead to on-time and on-budget projects," a *Wall Street Journal* editorial stated in 2001. "But the largest PLA ever granted, the rebuilding of San Francisco International Airport, belies that. It is now $259 million over budget, six months late and has already suffered strikes by electricians and carpenters."

What about non-economic arguments, such as those dealing with "fair wages" and quality-of-life issues?

"Project Labor Agreements bring order out of chaos on construction jobs by setting wages, establishing work rules, and methods of settling grievances," said one union official, quoted in a recent International Brotherhood of Electrical Workers press release. "They provide safe, fair working environments for crafts people, and they level the playing field for all competing contractors, union and non-union."

Nearly all government-funded projects must pay union wages, so the wage issue is bogus. Non-union workplaces have better safety records than union workplaces, according to federal records. The state imposes all sorts of safety rules and, last time I checked, most states still have a legal system available for settling most types of grievances. I'm not arguing that government rules are a good thing—the private sector does a better job setting wages and fixing most workplace problems without regulators. But the existence of these rules undermines the non-economic portion of the PLA argument.

It's really about coercion, plain and simple. It's about building union power and cutting out competition by force of law.

Based on Coercion

The most appalling part of PLAs is that they force employers to become union companies, and workers to become union members, if they wish to work on public-works projects. Here's a typical clause from a PLA: "All employees who are employed by employers to work on the project will be required seven (7) days after their date of employment to become members and maintain membership in the appropriate union for the duration of their work on the project."

You can't get much more coercive than that. Join the union and pay dues to an organization that you despise and that might use the dues for political causes you oppose, or you can't work. Many of these projects, perhaps most, shouldn't even be done in the public sector. But until we succeed in separating school and state, or roads and state, it's unfair to limit all such work to those who are part of a coercive, but politically powerful movement.

Ironically, as the Associated Builders and Contractors points out, PLAs discriminate against women and minorities, two groups that government officials often claim to be protecting. "Most minority and women-owned construction companies in California are subcontractors, and most of them—like the construction industry at large—are not signatory to a union," according to the ABC. "In addition, the majority of minority construction workers in California have exercised their right not to belong to a union. Pre-hire PLAs, in effect, benefit a few minorities and women at the expense of the majority by limiting bids to companies signatory to a union."

It's yet another example of government rules working to undermine stated government objectives.

President George W. Bush won't win any awards from libertarians for promoting a free society, but he at least recognized the evils of PLAs when in April 2001 he signed Executive Order 13202. His goal, the order said, was to "promote and ensure open competition of federal and federally funded or assisted construction projects . . . maintain government neutrality towards government contractors' labor relations . . . reduce construction costs to the federal government

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and taxpayers . . . expand job opportunities . . . prevent discrimination against government contractors or their employees based upon labor affiliation or lack thereof . . . [and] prevent the inefficiency that may result from the disruption of a previously established contractual relationship."

Noble goals, even if one might raise legitimate objections to the use of executive orders in general. Specifically, the order forbids PLAs for federally funded projects, although it was later amended to exempt existing projects that already have adopted PLAs. The U.S. Supreme Court has turned back AFL-CIO challenges to the order.

But it doesn't do anything to stop PLAs for nonfederally funded projects, which means concerned taxpayers need to pay careful attention to how state transportation officials, school districts, and city councils bid local construction projects.

The Right Debates

Foes of PLAs need to understand that the economic arguments in favor of them are thoroughly bogus. They need to recognize that forcing a worker or company to support a union is coercive, and that approving a PLA is tantamount to throwing away potentially millions of taxpayer dollars.

It's a tough chore these days. One chief of staff of a local Republican official argued to me recently that more projects should be done in the public rather than private sector because the public sector is more fair and less susceptible to the sort of unethical behavior that has accompanied the Enron and Arthur Andersen scandals.

It's hard to know where to begin. But the PLA is a prime example of what's wrong with that argument. The more projects the government finances, the more susceptible tax money is to political machinations.

Imagine if schools and roads were privately funded and paid for by parents and drivers in a market system. Sure, private companies could impose PLAs, just as many private companies negotiate with unions, but ultimately market forces would punish those companies for foolish decisions. Overpay on a contract and a competitor could come along and offer its services for less money.

This sounds simple, but too few people understand how markets work. Until they do, PLAs and other forms of socialism will flourish. □

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IDEAS ON LIBERTY
JUNE 2003

Competition Is Cooperation

Much animosity toward capitalism among academic critics can be accounted for by a distaste for competition. The critics just don't like it. It seems so rough, so uncaring, so vulgar. And laboring under the misapprehension that its opposite is cooperation, they endorse the latter in righteous tones while condemning competition as the "law of the jungle."

On first sight, this is plausible. As most people think of it, competition has winners and losers; cooperation has only winners. Competition sounds cold and antagonistic. Cooperation sounds warm and nice. Children are exhorted to cooperate, not to compete.

But this way of thinking is full of fallacies. For human beings competition is not the negation of cooperation but a *form* of it. We know this because when competition is forcibly suppressed, cooperation breaks down and something like the real law of the jungle takes its place.

The idea that capitalist society lacks cooperation is ludicrous. "Society is concerted action, cooperation," wrote Ludwig von Mises in *Human Action*. "[S]ociety is nothing but the combination of individuals for cooperative effort." To imagine a society without widespread cooperation is to imagine a square circle. It can't be done.

The marketplace, with its specialization and division of labor, is the epitome of cooperation. One person makes shoes; another makes clothes. Then they exchange their products. What could be more cooperative? Pre-industrial societies were less cooperative in the sense that the circles of trust were small. With modern capitalism, they extend to distant and perfect strangers. Indeed, cooperation is global—something that many critics of capitalism, oddly, do not like.

What is the relationship between competition and cooperation? Competition is what arises when people are free to choose with whom to cooperate. Sam wants shoes. Manny, Moe, and Jack sell shoes. Each wants to cooperate with Sam. So each strives to win his patronage by offering higher quality, lower prices, a better selection, or some combination of these. That the sellers expect to gain from the cooperation is no valid objection. Parties to cooperative efforts always expect to gain somehow.

Manny, Moe, and Jack could cooperate to sell shoes together, and under some circumstances they may do so. But capitalism's critics would object to that also. Apparently only cooperation thought up by academics and forcibly imposed by politicians is appropriate.

Thus freedom plus cooperation equals competition. Those who would banish competition would also have to banish free cooperation. All that would be left would be forced cooperation, with the state dictating the terms. Compulsory cooperation is what went on in the gulag and concentration camp. In fact, there's nothing cooperative about it at all. It's just compulsion.

This is not to say that there is no downside to competition. If enough shoe buyers

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patronize Manny and Moe, Jack may go out of business. His dream of owning a shoe store may be dashed, and he might have to go to work for someone else or find some other occupation. We can sympathize with him, while realizing that to prevent such sad events the state would have to restrict the freedom of shoe buyers. Of course, the restrictions would go well beyond that. If the government is to prohibit competition throughout the economy, it must ultimately own and control all resources. But we know from writings of Ludwig von Mises and F. A. Hayek that this is the path to disaster. Without private ownership and trade in the means of production—that is, competition—there can be no true money prices for resources. And without prices there can be no way to calculate the best strategies for satisfying consumers at the lowest cost.

Economic competition is often erroneously compared to what goes on among wild animals. The terms "dog eat dog" and "survival of the fittest" are thrown around with little consideration of what they mean. In the wilderness animals compete in consumption. Since they do not engage in production, they have to make do with what the environment grants. With demand usually exceeding supply, competition in consumption brings about the unpleasantness we associate with wild animals.

People Are Different

What goes on among people is far different. Human beings produce as well as consume. What's more, we discovered early on that specialization, the division of labor, and trade make each individual far better off than he would be in isolation. While resources are always scarce at any moment, the productive process progressively reduces scarcity. Billions of people are wealthier today than one billion were around 1800.

In a modern market economy we don't normally rush to the supermarket hoping to get there before all the milk is gone. We are confident that there will be milk and other goods on the shelves all the time. (This was not true in the Soviet economy.)

In other words, the competition that goes on in the marketplace is not, for the most part, competition in consumption, but rather competition in production. Or, to be more precise, we compete to consume by competing to produce. Instead of vying for a piece of meat before someone else gets it, we vie to produce better food or clothing or DVD players for others before someone else does. Success enables us then to purchase the goods we want. In contrast, when the state prohibits competition in production, competition in consumption is inevitable. Anticapitalism ushers in the law of the jungle.

As Mises wrote and contrary to intuition, the cooperation of the marketplace abolishes the law of the jungle. If many animals need the same food, a bloody competition results. But the demand by all people for clothing, food, and shelter brings those products within easier reach of everyone, as specialization and the division of labor lower the cost of production and expand supply. The competition and cooperation in the marketplace are truly humane.

Mises takes this argument a step further. It has been suggested that fellow feeling among people led to economic cooperation and rising living standards. Mises says it worked the other way around. The realization that trade makes us better off encouraged economic cooperation. This in turn permitted the emergence of "feelings of sympathy and friendship." Cause and effect could not have been reversed. If we were competitors in consumption, "Each man would have been forced to view all other men as his enemies; his craving for the satisfaction of his own appetites would have brought him into an implacable conflict with his neighbors. No sympathy could possibly develop under such a state of affairs."

Thus in more ways than one, capitalism makes us all richer. □

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IDEAS ON LIBERTY
JUNE 2003

There's No Such Thing as a Nonprofit Organization

by Karen Selick

"Four legs good, two legs bad," chanted the sheep in Orwell's 1945 satire *Animal Farm*. In Canada today the people are chanting something slightly different: "Non-profit good, profit bad."

Take Medicare, for instance. A recent widely publicized, government-commissioned report (the Romanow report) recommended shoveling billions into public health-care facilities and nixed the idea of more private facilities. Now some group is running radio ads bleating that we've got to "stop the slide into for-profit health care."

Then there are the child-care lobbyists, who got another few minutes in the sun recently when the government re-announced its planned national child-care program. These folks are forever lauding non-profit day-care centers and bad-mouthing private ones—often even insinuating that private centers are unsafe for kids.

Here's another example. When a furor erupted over the fact that an Ontario prison run by a private company was recording each inmate's race along with hair and eye color on his identity tag, one critic called it "a perfect example of why leaving our jails up to private interests guarantees all kind of injustices."

Like Orwell's animals, Canadians seem to have mentally divided the world into two distinct groups. Everyone who works for a profit is a greedy, money-grubbing, corner-cutting, cheat-his-own-grandma sinner, while everyone employed by a nonprofit institution is a conscientious, selfless, caring, sharing saint.

Here's my question to these true believers: just where do you suppose the nonprofit institutions find these shmoo-like creatures to work in their organizations? Do you imagine they breed 'em themselves, or what?*

The answer, of course, is that the employees of nonprofit institutions are selected from the same mixed bag of humanity as the owners and employees of profit-making ventures. Whether they be teachers, nurses, day-care workers, or prison guards, they exhibit self-centeredness, greed, laziness, dishonesty, and venality in roughly the same proportions as the rest of the population.

In fact, every single employee of a nonprofit institution is actually a "profit center" in himself. He has certain basic expenses he must incur in order to work—food, shelter, clothing, transportation, and perhaps tools or training. He tries to minimize these expenses by shopping around. He tries to increase his revenue (his wages) by seeking raises, promotions, or a better job. His financial goal is to maximize the gap between revenues and expenses so there'll be

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*The selfless shmoo was a character from Al Capp's comic strip, "Li'l Abner." "The Shmoo believed that the only way to happiness was to bring happiness to others." See www.lil-abner.com/shmoo.html.

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Worker Type	Hospital Hourly Wages	Average Hotel Hourly Wages	Premium (%)
Housekeeping aide	$17.88	$14.97	17%
Cleaner	$17.58	$15.09	17%
Payroll Clerk	$21.53	$15.52	39%
Storekeeper	$18.04	$15.77	14%
Food Service Worker	$17.16	$15.07	14%
Dishwasher	$17.46	$15.01	16%
Cashier	$17.46	$15.20	15%
Cook 1	$19.92	$15.07	32%
Cook (Baker)	$21.56	$16.45	31%
Maintenance Worker	$19.00	$17.39	9%
Painter	$22.83	$17.39	31%
Switchboard Operator	$18.44	$14.98	23%
Booking Clerk	$19.77	$15.01	32%

Source: The Fraser Institute, *Fraser Forum*, January 2002, p. 32.

as much money as possible left over for luxuries, hobbies, vacations, or whatever else he finds rewarding in life. This is his profit.

Kira Heineck and Cheryl DeGras of the Ontario Coalition for Better Child Care wrote recently in the *Toronto Star*: "Not-for-profit [child] care is almost always of higher quality than commercial care. Simply put, this is because all available resources are used for delivering care, instead of setting aside some for profit."

This is typical of the mindset of nonprofit advocates. They seem to think of a privately owned enterprise as a bottle of unprocessed milk, with a layer of cream called "profit" floating on top of the skim milk called "overhead."

In reality, every enterprise, private or "nonprofit," is more like a bottle of homogenized milk. The cream is commingled throughout the bottle. From top to bottom of the organization, every individual's personal goal is to procure his own profit. So while Ms. Heineck and Ms. DeGras may like to think that nonprofit child-care funds are being used to "deliver care," in actuality a portion of them are being used to deliver profits—that is, income beyond the necessary expenses of being employed—to the organization's employees.

A study published by the Fraser Institute compared the wages being paid to nonprofit-sector hospital workers and for-profit-sector hotel workers in British Columbia. The nonprofit jobs compared required no specific medical knowledge. The employees in both groups were unionized. The table above suggests what happens when you eliminate the profit that would otherwise go to an entrepreneur: it gets divided up among employees at other levels in the enterprise instead.

When a nonprofit enterprise gets its funding from government, no one within the organization has any incentive to control costs. On the contrary, all employees have the same incentive: to increase their own profits by demanding higher wages and more tax dollars.

Efficiency through Profits

In a private business the entrepreneur's desire for profits actually serves an extremely useful function: it provides the incentive to look for the most efficient way to do things.

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If the owner can keep expenses down by finding cheaper sources of inputs, or by inventing an entirely new and more economical method of producing the same finished product, he gets to pocket the difference. This is a benefit not only to him, but to society at large. The fewer resources that are consumed in making one product, the more resources are available for making others.

Critics contend that the profit motive leads to corner-cutting and shoddy output. They forget that where competition is permitted, entrepreneurs can't get rich by cutting costs alone. They also have to fight for market share, which means they have to make the best possible product at the lowest possible cost.

Consider: health care in Canada—an industry that is almost entirely nonprofit—is getting ever more expensive and ever more deficient. Computers in Canada—produced by a for-profit industry—are getting ever cheaper and ever better.

Wise up, Canadians. Profit's not a dirty word, and nonprofit enterprises are just a figment of your imagination. □

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IDEAS ON LIBERTY
JUNE 2003

Why Wages Used to Be So Low

by Thomas E. Woods, Jr.

A widespread misconception about the market economy is that it was responsible for low wage rates from the beginning of the Industrial Revolution through the early twentieth century. One answer to that claim, as all respectable economic historians now concede, is that the Industrial Revolution introduced the era of rising living standards for the great mass of the population.

But there is much more to be said, since such criticism of the market is not only historically incorrect, but it also completely misconceives the issue. Perhaps the best way to explain why is by recourse to what George Reisman refers to in *Capitalism*, his sizable 1996 treatise, as "the productivity theory of wages."* Reisman provides an algebraic derivation of the theory in his book, but I shall simply describe the idea and demonstrate its fruitfulness in the study of economic history.

Reisman cautions against thinking that a rising standard of living implies that workers consistently earn more money. In an economy with what he calls an "invariable money" (essentially an unchanged quantity of money), it is impossible for *everyone* to earn more money over time. Thus the fundamental way in which people's standard of living rises is for money to command greater purchasing power. This happens through increases in the productivity of labor—the amount of output per worker. The more output the economy is capable of producing, the greater the purchasing power a worker's wages will command. According to Reisman, "it is the productivity of labor that determines the supply of consumers' goods relative to the supply of labor, and thus the prices of consumers' goods relative to wage rates" (p. 621). In other words, the more production per capita, the lower prices will be relative to wages.

Think of it this way: The American economy in the 1870s possessed a dramatically smaller productive capacity than the American economy of 2003. Labor was drastically less productive back then. As a result, it was physically incapable of producing the sheer volume of products per capita of which our present economy is capable—and, of course, a whole host of goods that we take for granted hadn't been invented yet.

Although by historical standards nineteenth-century England and the United States enjoyed a far higher standard of living than Europe had ever known, many people understandably look back on that era with revulsion. Goods were certainly far more scarce than today. Leaving emotion aside, let's use economic science to consider the

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*George Reisman, *Capitalism* (Ottawa, Ill.: Jameson Books, 1996). All quotations are from this book.

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When capitalists reinvest their profits they can purchase steam shovels instead of hand shovels, computers rather than typewriters, copy machines rather than the labor of scribes. They can equip warehouses with forklifts, allowing a single worker to perform tasks that might well have required ten workers.

inevitable constraints that scarcity imposes on living standards.

Suppose some catastrophe wiped out all capital equipment invented and developed over the past 150 years. Gone also are all automobiles and the knowledge to create new ones, fax machines, cellular and standard telephones, e-mail, the Internet, radio, and television. Many conveniences we take for granted no longer exist at all, and the vast majority of the remainder must be made either by hand or with the clumsiest and most inefficient machines. Needless to say, this economy is capable of far less production than it was before the catastrophe. The productivity of labor has plummeted.

Does it not stand to reason that under these drastically changed circumstances we would all have to work much longer and harder to maintain even a minimally acceptable standard of living? Compared with today, the goods we need would be unusually scarce and expensive in terms of the labor time it took to earn the money to buy them A great many consumers chasing relatively few goods would inevitably produce high prices. Since the relative lack of capital equipment would mean a low productivity of labor, workers throughout the economy, as a matter of simple logic, would have to toil long and hard to produce the amount of consumer goods desired. If in our obstinacy we all determined to maintain a 40-hour work week even in the face of such changed conditions, we would not produce anything approaching the amount of consumer goods previously made, and the result would be still greater impoverishment. It is this simple fact of low worker productivity, rather than any sinister machinations of greedy businessmen, that would account for our low standard of living.

Unconscionable Exploitation?

In effect, this is something like the economy in England during the early Industrial Revolution and, to a lesser but still considerable extent, the American economy in the latter nineteenth century, the periods of alleged unconscionable exploitation by greedy businessmen. Apparently, it has never occurred to critics of the market that the reason people back then could afford far fewer and considerably lower quality goods might have something to do with their inability to produce more. The working assumption among critics appears to be that feeding, clothing, and housing more and more people over time, and making possible a steadily rising life expectancy, is nothing too impressive (although it had never been done in such a sustained and remarkable way anywhere in the world until the eighteenth century). No, these critics expect the increased population that capitalism makes possible to enjoy, right away, spacious and commodious homes, fine cuisine, and ample leisure time, and if they lack these things the only explanation can be that wicked businessmen are depriving the workers of them. That these things might not even exist in any great numbers is not even considered.

What, specifically, could have been done to improve this situation? If goods could be provided in greater abundance, they would be less dear and more within reach of the ordinary consumer. How can goods be provided in greater abundance? By increasing the amount of output per worker. And that

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can be accomplished through technological innovation and investment in capital goods. When capitalists reinvest their profits they can purchase steam shovels instead of hand shovels, computers rather than typewriters, copy machines rather than the labor of scribes. They can equip warehouses with forklifts, allowing a single worker to perform tasks that might well have required ten workers.

As a result of such investment, productivity and output are increased considerably. The whole process is driven by the profit motive, which leads businessmen continually to search for new and improved products and to cut costs in order to earn premium profits. Competition then serves to pass the quality improvements and cost cuts on to the consumers, who obtain progressively more and better products at lower and lower real prices.

When labor becomes more productive in a given industry, the number of workers it employs can rise or fall, depending on consumer demand. In the automobile industry, where improvements in productivity and consequent cost and price reductions opened up a mass market, the number of workers increased vastly. In agriculture, where improvements in productivity were accompanied by far less than a proportionate increase in food consumption, the number of workers diminished. In this and all other cases in which an increase in productivity led to fewer workers being needed, labor was released for employment elsewhere in the economy. This freed-up labor could then produce goods that consumers wanted but could not have had before because the workers were needed to make things consumers wanted more urgently. Thus the rise in the productivity of labor creates wealth—and raises real wages.

This process is not understood by most of the people who consider themselves qualified to teach economics, history, and "social studies." Their implicit judgment is that the conditions in the late-eighteenth and nineteenth centuries called for government intervention to redistribute wealth from the capitalists to the workers. One problem with such a plan, says Reisman, is that

> there was virtually nothing to redistribute. The workers of the early nineteenth century did not lack automobiles and television sets because the capitalists were keeping the whole supply to themselves. There simply were no automobiles or television sets—for anyone. Nor did the workers of those days lack sufficient housing, clothing, and meat because the capitalists had too much of these goods. Very little of such goods could be produced when they had to be produced almost entirely by hand. If the limited supplies of such goods that the capitalists had could have been redistributed, the improvement in the conditions of the workers would hardly have been noticeable. If one person in a thousand, say, is a wealthy capitalist, and eats twice as much and has twenty times the clothing and furniture as an average person, hardly any noticeable improvement for the average person could come from dividing the capitalists' greater-than-average consumption by 999 and redistributing it. At the very best, a redistribution of wealth or income would have been useless as a means of alleviating the poverty of the past. (p. 653)

In fact, Reisman goes on, such wealth redistribution, in addition to being ludicrously inadequate for fulfilling the expectations of its supporters, would directly harm the long-term interests of the workers themselves, as well as everyone else. If businessmen wish to prosper they must reinvest the vast bulk of their profits to expand their capital stock. That in turn further increases the productivity of labor, increasing the supply of goods produced. These increases, by raising the ratio of consumer goods to the supply of labor, lowers prices relative to wage rates and raises real wages. The cost of wealth redistribution would include the investment in capital equipment that business would be unable to make because its profits would be taxed away. "The truth is," says Reisman, "that what made possible the rise in real wages and the average standard of living over the last two hundred years is precisely the fact that for the first time in his-

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tory the redistributors were beaten back long enough and far enough to make large-scale capital accumulation and innovation possible" (p. 653).

Taking Credit

Politicians, who have to justify their existence somehow, naturally want to take credit for the economic progress and rising living standards we have enjoyed for the past two centuries. Virtually all textbook treatments of these issues dutifully parrot the government line: were it not for the power of the state, people would still be toiling 80 hours per week and children would be working in mines. Again contrary to what most people have been led to believe, it is logically inescapable that reduced working hours and the elimination of child labor were brought about precisely by the *extension* of capitalism. It is beyond tiresome to listen to a modern-day professor's moral outrage at the fact that nineteenth-century workers often worked 60, 70, or even more hours per week. If only people had been more "socially conscious," goes the typical argument, these laborers might have been spared having to work so many hours.

There is no doubt that by today's standards, people in the nineteenth century did indeed work an exhausting schedule. But, again, when output per worker is miserably low, a supply of consumer goods that most people consider adequate requires long hours of work. As productivity increases, and with it the level of real wages, people begin to opt for leisure over additional goods. Without the prod of legislation, employers will discover it is in their interest to require fewer hours of their workers. If someone who once worked 80 hours per week now wishes to work only 60 (three-fourths as many hours) and is willing to accept a wage less than three-fourths his previous wage as a premium on the added leisure, it makes perfect sense for his employer to offer these terms (pp. 660–61).

Reisman does not hesitate to draw the obvious if all-too-rare conclusion from all this: it is the capitalists, routinely portrayed as devilish villains, who are alone responsible for the dramatically higher standard of living that American workers enjoy today. The typical American worker owns an abundance of things that people of previous ages could scarcely have imagined and would have regarded as luxuries. These are due primarily not to the physical effort of ordinary laborers, important as their contribution is, but to the scientific genius of those who invent the machines and tools with which workers can multiply many times over what they could have produced with their bare hands, and to the organizational genius of businessmen who oversee the process of production and who put those machines and tools in the hands of their workers.

Both in the productivity theory of wages and in his treatise taken as a whole, Reisman makes it clear what we should think of those educators, politicians, journalists, and activists who, decade after decade, have poisoned popular opinion by leveling the same drearily predictable accusations against capitalism. By consistently offering more and better products at lower and lower prices the market has made possible the physical survival of countless millions who in more-primitive conditions would surely have perished—the very opposite of those allegations about the "survival of the fittest." Out of envy, malice, or sheer ignorance, the market's opponents have denigrated and actively sabotaged the only social order that has been able to rise above the stagnation and squalor of the past. □

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IDEAS ON LIBERTY
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China's Forgotten Industrial Revolution

We live in a world that has been shaped by a process that began some 250 years ago in northwestern Europe. We often call it the Industrial Revolution because one of its most dramatic features was the appearance of industrial manufacture with the rise of the factory system. However, this was only one element and not the most significant. Moreover, concentrating on industrialization suggests that the change is now complete. The process continues.

It has several important aspects, which are mutually reinforcing. The most obvious is continuous intensive economic growth. Intensive growth is marked by constant innovation and increased efficiency: doing new things and doing more with less. Extensive growth, the historical norm, means more of the same and doing more with more, that is, with no increase in efficiency or productivity. Another important part of the process is continuous technological innovation and improvement. This both reflects and encourages a growth of theoretical knowledge. (See Joel Mokyr's *The Gifts of Athena: Historical Origins of the Knowledge Economy*.) Yet another part is the development of increasingly complex economic institutions and instruments.

All historians recognize the existence and importance of this phenomenon. However, they disagree about many other related matters. In particular there is no real agreement about how this process started and why it happened in Europe rather than some other part of the world. Why not in the Islamic world or in India? Above all, why not in China? The last question is the truly difficult one. As Kenneth Pomeranz points out in *The Great Divergence: China, Europe and the Making of the Modern World Economy*, economically China was on an equal footing with Europe until the mid-eighteenth century or later. In fact, for the greater part of human history China was by far the most innovative and technologically advanced of the great civilizations. The list of important inventions first made in China is almost endless. So why did the revolutionary process not start there?

Actually, it did start in China before it did in Europe. As Eric Jones has pointed out in *Growth Recurring: Economic Change in World History,* China had an "industrial revolution" comparable to that of eighteenth-century Europe—some 800 to 900 years ago. It happened under perhaps the most maligned yet fascinating of China's imperial dynasties, the Song.

The Song reunited China following the division and chaos of the Five Dynasties (907–960). The dynasty was founded by two remarkable brothers, Song Taizu (960–976) and Song Taizong (976–997). They introduced a number of important changes in the economic policy and organization of the Empire. One was a measure that gave peasant farmers true property rights in their land, above all the right to sell it. The result was the emergence of a market in land, which led to the consolidation of smaller

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farms and the appearance of commercial agriculture. Even more important was their fiscal policy. Traditionally the Chinese state had depended on taxes levied on the peasantry, most often paid in kind. Song Taizu laid down the principle "Agrarian taxes must not be increased." Consequently, the Song came to depend increasingly on taxes on trade and so systematically encouraged it.

This had dramatic results. China rapidly became a highly monetized economy. In 750 only 4 percent of all taxes was paid in money, but by 1065, 50 percent was paid that way. In 1024, in the reign of Song Renzong, the widespread use of paper money began. Initially, paper notes had a strict three-year limit and were convertible into cash or specified quantities of commodities. With time, checks, promissory notes, and bills of exchange were all used. By the end of the dynasty, the amount of paper money in circulation was equivalent to 70 million strings of cash, or 70 billion copper coins.

Dramatic Economic Growth

Agriculture, trades, and manufacture all grew dramatically. It is clear, particularly from the agricultural evidence, that this was intensive, not extensive, in nature. Thus while the population doubled between 960 and 1020, the output of rice more than doubled. In 1078, China produced 125,000 tons of cast iron, more than the rest of the planet put together. This would not be surpassed until the 1790s, in Britain. A whole range of technological breakthroughs and improvements were made. These included movable type printing (1000), the blast furnace (1050), mechanical water clocks (1090), paddlewheel ships (1130), the magnetic compass (1150), water-powered textile machinery (1200), and most dramatically, huge oceangoing junks with watertight bulkheads, a carrying capacity of 200 to 600 tons, and a crew of about 1,000 (1200).

The period also saw rapid urbanization, most notably in cities such as Kaifeng, Liaoyang, and Hangzhou. One aspect of this was the deregulation of markets as part of the policy of encouraging commerce. Previously markets had only been allowed in specified places under tight control. Under the Song, towns and cities had street markets, shops on the major streets and thoroughfares, and specialized shopping areas with products from all over the empire and beyond. Two other aspects of Song policy were related to this phenomenon. One was the encouragement of import and export trade. In 964 total revenues from exports amounted to 500,000 strings of cash; by 1189 they came to 65 million strings. The other aspect was free movement throughout the empire, encouraged by another Chinese invention, the motel.

By the 1260s China had reached a level of technological sophistication and economic development that Europe would not achieve until the late eighteenth or early nineteenth century. All the above-mentioned features of the process that produced modernity can be found in Song China, which was clearly being transformed in the way that our world has been and continues to be. However, it did not continue. Instead Chinese society stabilized. It remained superior or equal to European society until about 1800, but the dynamic process stalled. That it did not continue is truly a tragedy. If it had we would be living in a "Chinese" world rather than a "Western" one. We would also be much richer and more knowledgeable.

Why did it not continue? As Jones says, this is the big and important question for economic historians. As ever, there are many answers. This is, however, not just of interest to historians, for the answers may have a considerable import for ourselves and our own position. One explanation in particular holds a terrible warning for us. What that is I hope to set out in my next column. □

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IDEAS ON LIBERTY
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Born Capitalist: Free Markets and Hominid Evolution

by Robert E. Wright

The generic term for bipedal apes, including *Homo sapiens* or modern humans, is hominid. Since the publication of the first edition of Charles Darwin's *On the Origin of Species by Means of Natural Selection* in 1859, scholars have often speculated when, where, and why hominids diverged from their chimpanzee-like cousins. They wondered what environmental factors would have created selective pressures in favor of hominid traits, like bipedalism, a relatively high brain-to-body ratio, and sophisticated use of language, and away from ape characteristics such as arborealism, knuckle walking, and relatively small brain-to-body ratios and limited communication capabilities. Often, scholars sought the one key attribute that separated hominids from apes and other types of creatures. The hope was that if a special or unique characteristic could be identified and explained, discovering the causes of other hominid characteristics would be greatly simplified.

The key-characteristic strategy was not inherently flawed, but until recently it has always fallen flat. Hominids are not the world's only bipeds, toolmakers, or masters of communication. But it turns out that hominids do exhibit a unique behavior, one *never* observed elsewhere in the animal kingdom. Hominids regularly engage in the exchange of goods and services with non-kin members of their own species. In short, hominids have come to rule the earth because they exploited a latent yet extremely powerful feature of the environment as yet undiscovered by other creatures, the free market.

Decades and perhaps centuries of further research will be necessary before we will know all the details. Thanks to recent research by Haim Ofek and others, however, the general outlines of hominid evolution can now be sketched.[1]

The story starts in Africa between 5 and 8 million years ago, with the last common ancestor (LCA) between humanity and its closest living relative, the chimpanzee. Due to a climatic change, some of the LCA began to inhabit a less wooded, more open range. Others continued to live in the forests, where they encountered selective pressures that led to the evolution of two species of chimpanzee. The grassland LCA, however, encountered very different selective pressures, including increased predation. Evolution favored behavioral changes that led the LCA to join together in large, baboon-like troops. The grassland environment also caused selective pressures for physiological changes that led away from knuckle-walking and toward bipedalism. Walking on two

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legs, though inferior to pure quadrupedalism, was, in open country, far superior to chimp-like knuckle-walking.

At that point, our ancestors, known today as australopithecines, were little more than upright apes who behaved something like baboons. But the two major elements necessary for the discovery of private property and the power of trade—free hands and frequent interaction between non-kin—were in place. (A sufficiently high level of consciousness, of course, was also required.) *Australopithecus* was a successful genus that survived several million years and spawned several species, including at least one of "robust" herbivores analogous to gorillas and at least one of "gracile" omnivores that probably engaged in a chimp-like foraging strategy that included the gathering of fruits, nuts, and other vegetable matter and the hunting of small game ranging from termites to small mammals. The gracile australopithecines, the most famous of whom is "Lucy," undoubtedly used tools, like conveniently shaped sticks and rocks, and may have even constructed crude tools like the "termite sticks" produced by some groups of chimpanzees.

The Birth of Property?

Unlike chimps, however, australopithecines did not use their hands for locomotion. If "Lucy" found a stick or stone that was particularly useful, therefore, she did not have to abandon it before moving to new foraging grounds. She could appropriate it for her own use. Private property was born, but, given the foraging strategy of the species, no australopithecine could afford to amass much. We can imagine that each might have carried one or at most two prized tools about with him. Maybe one carried a particularly long, stout, pointy stick good for fending off leopards, while another lugged around a rock with a sharpened edge that came in handy when butchering game, and a third bore a club-like branch ideal for bopping snakes and small mammals on the head.

Such specialization made trade both possible and profitable. The club carrier smashes the skulls of a few rodents. The stone carrier butchers the rats and throws a hunk to the spear bearer for watching their backs. Even a rudimentary division of labor such as this would create tremendous benefits, including decreased predation and increased food consumption. Those intelligent enough to trade such services, therefore, would be differentially selected by nature for reproduction. Moreover, the shrewdest traders would enjoy even higher reproductive success. The bright spear bearer who demanded more rat hunks as the threat from leopards increased, for instance, would be more likely to survive and reproduce than the dull spear bearer who accepted mere scraps in exchange for frequent fights with the deadly cats.

The emergence of property rights, specialization, and free markets nicely explains the appearance of *Homo habilis*, a species that could take trade and specialization a step further than *Australopithecus* because at least some individual *habilis* possessed enough brainpower to create crude stone tools. Their social structure and foraging strategies are still largely a mystery to scientists, but most agree that they at least scavenged the bones of large mammals, using their crude stone tools to obtain the nutrient-rich marrow found inside. Their relatively large and hence metabolically expensive brains necessitated access to bone marrow and hence to stone tools. Crude as the tools were, their creation was not easy, given the still modest brain-to-body ratio of the species. So it is likely that some specialized in the production of the tools, while others specialized in the scavenging of bones, with trade linking the two groups. Again, trade would have driven the need for larger, shrewder brains, since clearly those who cut the best bargains would have enjoyed the highest reproductive success rates.

Trade in fire may be one of the oldest professions. Indeed, the fire trade can explain the evolution of *Homo erectus*, the second major species of hominid. Fire, a chemical reaction, is an extremely interesting commodity because it was not, given the technology available to Paleolithic hominids, easy to create or maintain. Yet fire could be

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As usual, it appears that Adam Smith was correct. We are born with "the propensity to truck, barter, and exchange one thing for another," and to do so under free-market conditions.

traded without reducing the inventory of the provider. It is likely that small groups of *erectus*, and later *sapiens*, specialized in the maintenance of fires. Ample archeological evidence suggests that they set up shop in caves in wooded areas, carefully nurturing several hearths used to kindle fires for other groups in exchange for food, skins, and other resources. Trade allowed the fire keepers to concentrate on maintaining the all-important fires, while simultaneously freeing the other groups to specialize in food and resource acquisition. As the fire keepers were essentially providing a service, maintenance of fire, rather than a commodity, it would have made little sense for non-kin to simply kill them and "steal" the fire. Even rival fire keepers would not have much incentive to kill other fire keepers, save perhaps to appropriate their caves, because the high transportation costs and homogenous nature of fire would have made the markets for the fire purely local, analogous to roadside inns.

The seemingly ubiquitous threat of physical violence has led some observers to doubt that trade between non-kin could ever take hold. After all, the argument goes, why not simply kill the counterparty and take his stuff? That undoubtedly happened, as it does to this day, but ignores the fact that the would-be victim would fight back and kill the attacker. Moreover, even if the raid were successful, members of the victim's family might retaliate. In addition, as noted, such arguments ignore the fact that trade involving exchange for services would give others, even non-kin, an incentive to maintain the life and health of the other party. Finally, such arguments ignore the mechanism of "silent trade," which might be better termed "asynchronous trade."

Silent trades are exchanges that take place between enemies, potential enemies, or strangers in a common location but at different times. Trader A leaves goods in a location Trader B frequents. Trader B can ignore the offer, signaling that he finds no value in the goods. Or he can take the goods and leave behind his counteroffer. If Trader A does not like the terms of the trade, trade ceases. If Trader A likes the terms, he can continue to trade. If Trader B simply absconds with the goods, Trader A may attempt to take physical retribution against Trader B or simply accept the loss. Presumably, Trader A would not put a large portion of his wealth at stake and in fact would most likely attempt to trade away goods with the least value to him, like remains of a carcass likely to rot anyway. Clearly, silent trade is not the most efficient market institution, but it does allow for enemies or strangers to reap the gains of trade.

The centrality of trade in hominid evolution explains much about the behaviors of modern *sapiens*, including our intelligence and shrewdness. Our brains are biologically expensive organs. We can biologically afford to feed them, ironically enough, because compared to other mammals, hominids have small guts. As our digestive systems shrank, more biological material was available to create and fuel our brains. The tradeoff of this arrangement, of course, is potential starvation. The evolution of subcutaneous fat reserves helped somewhat. By allowing food resources to flow from more to less productive areas, trade also helped to mitigate the risk of starvation. Moreover, as we have seen, trade and specialization increased the total resources available to our ancestors. Through both mechanisms, it became biologically possible to fuel large brains at the

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same time that larger brains were needed to carry out specialized tasks and to bargain effectively.

Smith Right Again

So, as usual, it appears that Adam Smith was correct. We *are* born with "the propensity to truck, barter, and exchange one thing for another," and to do so under free-market conditions. It is little wonder, therefore, that most of us chafe under socialism and extensive government regulation. Our ancestors who were good traders were more likely to live and reproduce than those who were poor traders or those who allowed others to dictate the terms of trade.

Despite its obvious predictive power, the view that hominids evolved to become the consummate traders is relatively new. Scholars have only begun to scratch the surface of this compelling hypothesis. Moreover, much established scholarship needs to be redone, or at least reconsidered. One of the most ubiquitous myths that needs to be tackled is that groups of *sapien* hunters and gatherers were communal if not outright communist. None other than Marx and Engels are responsible for the proliferation of this perfidious fallacy. That duo of course wanted to convert the world from capitalism to communism, so it made rhetorical sense for them to cast "primitive" social groups as communistic. For over a century, Marxist-leaning social scientists dutifully followed Marx and Engels's lead and expanded on the myth until the communal attributes of "primitives" became almost axiomatic.

Recently, however, legal scholars and evolutionary psychologists have exploded the myth. More work will have to be done to completely expunge social science of this powerful chimera, but the case studies completed to date have provided spectacular examples of the flaws of the communist myth. For example, George Mason University Law Professor D. Bruce Johnsen has shown that Indians of the northwest coast of North America (today Washington state and British Columbia) were essentially capitalists.[2] Left-leaning scholars have long upheld the Northwest Coast Indians' (NWC) "potlatch" system as a prime example of primitive communism. The potlatch system was characterized by the "ritual destruction of property" and reciprocal "gift-giving," hardly attributes of an advanced market economy.

On closer inspection, however, more sober scholars noted that the reciprocal gift exchanges were actually loans of resources repaid with interest and that the ritual destruction of property was analogous to the destruction of a promissory note after a loan is repaid. The NWC, in other words, possessed a capital market. More intriguing still, the NWC did not stumble on an ecological paradise filled with tasty salmon. They created their paradise by establishing and protecting private property rights in salmon. In effect, they were able to selectively breed salmon, almost domesticate them, by exploiting the genetic propensity of salmon to return to the place of their birth for breeding. By controlling a stream to its head, groups of NWC effectively owned and controlled their own school of salmon, allowing them to "pasture" in the ocean. (The descendents of the NWC embrace this capitalistic interpretation of their past because it bolsters their legal claims to restitution.)

Capitalist !Kung

Leftist scholars also grossly mischaracterized the !Kung, a hunter-gatherer tribe in Africa known more commonly as the Bushmen of the Kalahari Desert. Scholars wrapped up in the radical *Zeitgeist* of the 1960s portrayed the !Kung as noble savages with a peaceful, communal social structure and antimaterialistic values. Irven DeVore of Harvard University, co-leader of the 1960s !Kung project, now acknowledges that "we were being a bit romantic." "Our assumptions and interpretations were much too simple," he now admits, "but that was probably inevitable given the social and intellectual context within which we were working."[3]

Younger scholars, for whom the 1960s are ancient history, provide an even harsher assessment. They claim that the project lead-

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College undergraduates are still taught that early Americans were largely communal, uninterested in wealth accumulation, private property, and markets. Yet evidence to the contrary abounds.

ers did not really understand the !Kung language well enough to complete the study by interviewing tribespeople. Moreover, the !Kung project leaders closed their eyes to important evidence contrary to their thesis. Yet the !Kung, or rather the misconception of the !Kung, became *the* model of early hunter-gatherer societies, extant and extinct.

In fact, tribes or bands of hunter-gatherers are best seen as firms—that is, groups of people that strive toward a common economic goal. An alien anthropologist plopped down in the middle of General Electric might think he had discovered a communist paradise. The members of the firm help each other all day long, yet no money passes between them. They eat, drink, smoke, and socialize together. Sometimes tensions arise, but usually the "tribe" hums along nicely. What a communist paradise GE seems until the alien anthropologist comes to see that the "tribe" is simply one of many groups attempting to gain control over scarce resources.

Historians too have read their own radical desires into the past. For instance, college undergraduates are still taught that early Americans were largely communal, uninterested in wealth accumulation, private property, and markets. Yet evidence to the contrary abounds. Perhaps someday soon American farms will be understood for what they were, business firms, and American farmers will again be placed on an even footing with Indians and bushmen.

Humans do not need to study economics formally to be rational consumers because the basic tenets of shrewd trading are ingrained in their DNA. This is not to argue, of course, that formal education in economics is unneeded. But it does help to explain the seeming paradox that the world's largest and most efficient economy is composed of people with an appalling lack of economic education. We are also genetically predisposed to understand the intricacies of language. Why is it, then, that formal education is geared so much toward literature and so little toward economics? □

1. This essay is based on: Christopher Badcock, *Evolutionary Psychology: A Critical Introduction* (Malden, Mass.: Blackwell Publishers, 2000); Jared Diamond, *The Third Chimpanzee: The Evolution and Future of the Human Animal* (New York: HarperCollins, 1992); Alexander Field, *Altruistically Inclined?: The Behavioral Sciences, Evolutionary Theory, and the Origins of Reciprocity* (Ann Arbor: University of Michigan Press, 2001); Haim Ofek, *Second Nature: Economic Origins of Human Evolution* (New York: Cambridge University Press, 2001); Richard A. Posner, *Behavioral Law and Economics: A Critique*, *Economic Education Bulletin*, American Institute for Economic Research, August 2002.

2. D. Bruce Johnsen, "Customary Law, Scientific Knowledge, and Fisheries Management among Northwest Cost Tribes," *N.Y.U. Environmental Law Journal*, 2001.

3. Quoted in Roger Lewin, "New Views Emerge on Hunters and Gatherers," *Science*, May 27, 1988, p. 1146.

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The U.S. Embargo on Cuba: A Red Herring

by T. Norman Van Cott

An erroneous assumption plagues the now decades-old debate about the U.S. embargo on Cuba. Debaters, both pro and con, take it as given that Cubans would be inundated with things American should the embargo be lifted. Nothing could be further from the truth. For left-liberal opponents of the embargo, the error probably traces to wishful thinking—it seems they always want to prop up communist regimes. For conservative supporters of the embargo, the position probably reflects knee-jerk anxieties about the United States' being played for a fool.

Wishful thinking and anxieties aside, no people in a country can buy things from other countries unless they can sell things to them. Those with little to sell necessarily buy little. Economic deprivation never put Tom, Dick, or Harry at the head of the line to buy things, and so it is with countries. Countries earn their spot in line by being productive.

With *or* without the U.S. embargo, Cuba has little to sell others. Its economy is a textbook example of what happens when the lifeblood of economic progress—private property and voluntary exchange—are trashed. For over 40 years, Cuban natural resources and human talent have wallowed in a communist quicksand of perverse incentives. The U.S. embargo didn't put Cuba at the back of the line, thank you. No, Marx, Lenin, and Stalin taught Castro all he needed to know to get there. The embargo issue is a red herring when it comes to Cuba's ability to buy from other countries.

It's true that economists teach that international trade makes countries more productive. Does this mean that the embargo cuts Cuba out of these gains? Not at all. Gains from international trade are themselves the result of private property and voluntary exchange. They occur as owners of resources respond to price and profit signals implicit in world prices, thereby channeling the resources into areas of maximum national advantage. Cuba's institutions prevent this.

What about U.S. capitalists' funding a myriad of investment projects in Cuba if the embargo were abolished? Fat chance. Again, Cuba has a proven track record of hostility toward private property in general and foreign (especially U.S.) investment in particular. Capitalists have their own wealth on the line when funding new ventures. Only those bent on self-destruction would venture into a daunting situation like that of Cuba.

This is not to deny that numerous investment possibilities exist in Cuba. Why shouldn't there be? The country has endured over 40 years of economic gobbledygook. But there is a deep chasm between potential investment projects and economically viable investment projects, a chasm made impassable in this case by Cuba's intransigence

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when it comes to private property and voluntary exchange.

Ironically, the big losers from the embargo's passing into history would be Fidel Castro and his communist cronies. For over four decades they have been able to ascribe the failure of the Cuban economy to the U.S. embargo. Blaming foreigners for homegrown economic ills is not unique to Cuba. The practice has a long history. What makes the Cuban embargo different is that the foreigners—that is, the United States—handed Castro his red herring on a silver platter.

So the United States ended up being played for a fool after all, but not for reasons the conservative proponents of the embargo have long argued. Rather, it's the very success these proponents have enjoyed in sustaining the embargo that has led to this unfortunate result. □

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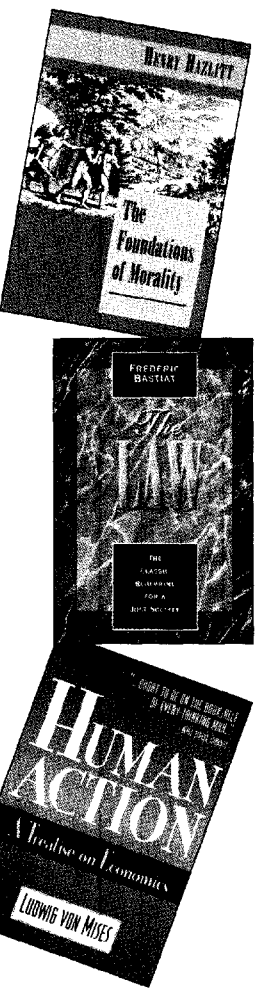

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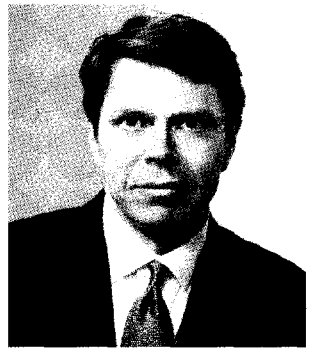

Of Human Hypocrisy

A scene in W. Somerset Maugham's beautiful novel *Of Human Bondage* captures the hypocrisy and pretense of much of what passes today for enlightened thought. Philip Carey, the novel's protagonist, invites a dying friend, Cronshaw, to spend his final days at his small apartment. Cronshaw is a penniless poet. Leonard Upjohn is a self-satisfied writer and acquaintance of Cronshaw who is working to publish some of Cronshaw's poems. Being a medical student, Carey must attend classes during the day, although he nurses Cronshaw in the mornings and nights. In this scene, Upjohn is at Carey's apartment talking with him about their mutual friend.

> "It's dreadful [Upjohn tells Carey] to think of that great poet alone. Why, he might die without a soul at hand."
>
> "I think he very probably will," said Philip.
>
> "How can you be so callous!"
>
> "Why don't you come and do your work here every day, and then you'd be near if he wanted anything?" asked Philip dryly.
>
> "I? My dear fellow, I can only work in the surroundings I'm used to, and besides, I go out so much."

In these few lines, Maugham portrays perfectly the sentiments of Enlightened People—the sort who travel the world to protest globalization, who rail mightily against corporate "greed," and who hold candlelight vigils to show their opposition to capitalist oppression.

Upjohn is Enlightened. He sees that it would be wonderful if Cronshaw were attended to all day long. Therefore, he is vexed that Carey does not skip his classes and perform this service. But Upjohn himself grows indignant and excuse-ridden when Carey suggests that Upjohn sit with Cronshaw during the day.

How typical. Upjohn's attitude is the same as that of those who indignantly and self-righteously demand that corporations, such as Nike, pay higher wages to their workers in underdeveloped countries. But other than to appease angry protesters, why should Nike or any other company pay wages that are above market rates?

Even to ask such a question today sounds callous, but let's examine the matter more closely.

No corporation can long afford to pay workers wages that exceed the value that its workers produce. And outsiders simply cannot know the full set of benefits and costs a corporation confronts by hiring a worker. Merely comparing the monetary compensation of a worker in Malaysia to that of a seemingly similar worker in Michigan or Missouri tells you very little.

Perhaps the smaller salary paid to the

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Malaysian worker reflects the fact that he is much less productive than his American counterpart. If the Malaysian worker produces only one-tenth as much in a work week as the American worker, the company is not getting more profit from this worker than it gets from its American worker, even though the Malaysian is paid only one-tenth the salary of the American.

Or perhaps the investment risks in Malaysia are greater than in America, and it is only the availability of workers willing to work at lower wages that makes the investment attractive to begin with.

But let's suppose (contrary to likely fact) that workers in Nike's Malaysian factories, although paid only a tiny fraction of Western wage rates, are every bit as productive as similar workers in Western factories and that the investment risks in Malaysia are no higher than in any Western country. Further, let's assume that Nike is so cash rich that it can easily afford to raise wages to well above Malaysian market rates. Is Nike unjustly exploiting its Malaysian workers by paying them the much-lower wages?

Insisting on Charity

Many Enlightened People answer yes. They assert that Nike *should* pay more. Perhaps. But let's be perfectly clear about what these Enlightened People are insisting that Nike do: they are insisting that it make charitable contributions to its Malaysian workers. If an offer from Nike of a dollar an hour is sufficient to attract all the qualified Malaysian workers Nike needs for a particular job, any amount offered above that is an offer of charity.

While Nike ought to remain free to do that, the case for this particular form of charity is not as clear as it seems to Enlightened People. First, if Nike decides to give away some portion of its assets to charitable causes, it should probably give to people who are worse off than the relatively lucky ones working in its foreign factories. As poor as a Nike factory worker in Malaysia is compared to an American factory worker, the Malaysian employed by Nike surely is better off than the Rwandan or North Korean, who has no opportunity to work for a Western corporation.

Second, if Nike decides to focus its philanthropy on its own workers, it should do so openly—say, with cash handouts—rather than in the form of higher wages. If Nike extends charity to its workers by arbitrarily raising their wages, it distorts market signals. Other corporations seeking to build foreign factories might bypass Malaysia, mistaking the high wages that Nike pays for the prevailing wage rate for such work. Those Malaysians who would otherwise have found profitable employment in these new factories now will not do so.

Third—and here we see the core relevance of the Maugham quotation—it is astonishingly hypocritical for Westerners to demand that Nike arbitrarily raise the wages it pays to foreign workers. Rather than demand this, why don't these carping Westerners extend this charity themselves? Like Nike, they're free to do so. These self-righteous protesters are as hypocritical as Leonard Upjohn.

Because Maugham's Philip Carey is already helping Cronshaw (by inviting him to share the apartment) it is especially galling that Upjohn—who has offered no help to the dying man—moralistically upbraids Carey for failing to do even more. All Upjohn cares to do is to heap uninformed scorn on someone who already is doing more for the downtrodden than he himself is willing to do. It's a startling display of hypocrisy. And yet it is found not only in novels; it is also regrettably prominent in the real world. □

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CAPITAL LETTERS

Poor Definitions of "Deflation" and "Inflation"

To the Editor:

Contrary to Stephen Davies's March column, "The History of 'Deflation,'" traditionally and historically, "inflation" referred to a "large" increase in the quantity of money, "deflation" to a "large" decrease. These definitions were not scientifically precise, for what is "large" was always debatable. Moreover, the quantity of money never stands still; it is always changing—gold and silver are constantly being mined, minted, and shifted in and out of the money stock, banknotes are being printed, lost, destroyed, and/or are disappearing from circulation, credit is always being expanded or contracted, and new credit instruments are being invented. On this account, Ludwig von Mises suggested that it would have been more accurate to speak of "inflationism" or "deflationism."

But the historical definitions of "inflation" and "deflation" in terms of the quantity of money at least helped explain how an increase or decrease leads inevitably and inexorably to changes in purchasing power. As new money is added to the quantity in circulation, whether as metallic coins, banknotes, and/or credit, it enters the holdings of particular individuals at particular times and places. These persons have more money at their disposal than before and start spending more freely, buying more things, and/or offering higher prices for what they want. As the money makes its way from one person to another, the early recipients find themselves competing with others who by then have also received some of the new money. Thus prices will rise.

Language, being manmade, is constantly changing, and so are the meanings of words. In the course of the twentieth century, "inflation" and "deflation" have undergone redefinition. Equating "inflation" with rising prices and "deflation" with declining prices, as Davies does, confuses cause with consequence. The idea that rising prices make for a prosperous economy, declining prices for economic disaster, and the proper control of the quantity of money for economic "stability" is now taken for granted by almost everyone from academician to politician, Chicagoite to Keynesian, bureaucrat to businessman and the man in the street. However, it flies in the face of logic and leads to a tail-wags-the-dog doctrine, like claiming that wet streets cause the rain.

The redefinition of "inflation" has also been responsible for the enactment of inflationary government deficit spending to finance Keynesian full-employment programs. This led to the long-term "age of secular inflation," on which Davies comments. It also led to widespread distortion of prices, disruption of economic calculations, and malinvestments—as seen for instance in the recent "overexpansion" and then failure of many dot.com firms.

Davies recognizes the factors that contribute to the determination of prices—trade, production, investment, competition, monetary fluctuations, availability of the precious metals, size of population, resources available, and more. But he considers long-term movements in prices "mysterious," and seems surprised that his study of prices throughout the ages led him to conclude that declining prices need not always herald economic disaster.

Although no one can predict future prices, there is nothing mysterious about the fact that they will be determined by the subjective values, actions, and choices of countless individuals under the circumstances that prevail, as each individual attempts to accomplish his or her various goals with the resources available. When considered in retrospect, prices may be high, or low, depending what is happening with money and how the many price-determining factors come together. But the well-being of an economy depends not on whether prices are higher or lower than prices at other times and places, but on whether the economic climate per-

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mits prices to develop in a free and open competitive market. What is crucial for the well-being of an economy is that prices be *free-market prices*, agreed on by voluntary buyers and sellers in an openly competitive environment. Many trades make many traders better off, and many better-off traders make the economy better off.

—BETTINA BIEN GREAVES
Former member, FEE Board of Trustees

Stephen Davies replies:

I actually agree wholeheartedly with almost everything Bettina Greaves says in her letter. However, I clearly need to clarify my own position somewhat. It is true that for economists "inflation" and "deflation" are the terms for an expansion or decline in the quantity of circulating medium. However the use of these terms to mean an increase or decline in the general level of prices has, as she says, become general since the mid-twentieth century. Since I was responding to current discussion I chose to use the terms in their popularly accepted sense.

I am not in the least surprised that declining prices do not mean economic disaster—that was the point I was trying to make. I was commenting on the surprise that this news would be for contemporary economic and financial journalists. (Among historians the coincidence of stable or falling prices with general prosperity in, for example, the fifteenth century has been a commonplace since the later nineteenth century.) As Bettina Greaves says, it is exchange and trade that ultimately matters, not the prices produced by those trades. However, I do insist that long-term price changes are difficult to explain, given the information and sources we have. Clearly, at any given time the prices for commodities and services are determined by the interplay of the factors that we both mention. However, it is not yet clear why there should be long periods marked by a general trend upwards or downwards in prices. As I say, there are a number of explanations that have been put forward, but none of them fully account for the empirical evidence we can observe. The discipline of history is like that, but we can hope that study will increase our knowledge and understanding.

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Delighted? Alarmed?
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BOOKS

Dependent on D.C.: The Rise of Federal Control Over the Lives of Ordinary Americans

by Charlotte Twight

St. Martin's Press/Palgrave • 2002 • 512 pages • $26.95 hardcover; $17.95 paperback

Reviewed by James Bovard

Charlotte Twight has written an excellent book to help Americans understand how the federal government is insidiously seizing control of their lives, year by year, edict by edict, emergency by emergency. Twight provides both a solid theoretical framework and bevies of examples to drive home the danger from Washington.

A professor of economics at Boise State University, she highlights how, "from the perspective of individual liberty," the "authority to control, not the specific controls imposed at a particular point in time," is the key issue. Her concern is "not only the growth of dependence but also the growth of an ideology of dependence—the normative judgment that broad governmental power creating pervasive dependence on government is desirable."

The author shows how politicians and bureaucrats are continually slanting the playing field against individual freedom. Twight warns, "Deliberately manipulating our ability to stop their power quest, federal officials have used techniques that systematically increase people's personal costs of resistance."

Twight also shows how government grows by deception, for example, how presidents, congressmen, and bureaucrats conned Americans into accepting Social Security. The Social Security Administration for decades told people that their Social Security taxes were being held for each citizen in individual accounts; in reality, as soon as the money came in, politicians found ways to spend it. Social Security Commissioner Stanford Ross conceded in 1979 that "the mythology of Social Security contributed greatly to its success. . . . Strictly speaking, the system was never intended to return to individuals what they paid." Ross said that Americans should forget the "myth" that Social Security is a pension plan and accept it as a tax on workers to provide for the "vulnerable of our society."

American citizens now shoulder over $12 trillion in unfunded Social Security liabilities. If the defenders of Social Security insist that the fraud was justified, the question arises: What future limits should exist on government's prerogative to deceive the people? If Social Security is an acceptable fraud, what would government have to do before it was considered to have gone too far?

Twight vivifies how the federal control of education has been increasing for decades. Public education is the most expensive "gift" that most Americans will ever receive. Government school systems are increasingly coercive and abusive both of parents and students. Government schools in most areas have been taken over by unions, judges, and grandstanding politicians. And the worse schools have failed, the more years of students' lives they are commandeering. Unfortunately, regardless of the continual failures of Washington's education programs, federal intervention has spread like kudzu through the nation's schools.

One of the best parts of the book is the analysis and revelations about federal surveillance of average Americans. Twight drives home how the feds were already sticking their noses practically everywhere—even before 9/11, the Patriot Act, and Total Information Awareness.

Dependent on D.C. walks readers through how the government has acquired far more arbitrary power in recent decades—and why that power is a dire threat to the Constitution and Americans' everyday life. Anything that increases dependency on government undermines liberty. How can a citizen help steer the ship of State at the same time that he has his hand out for another government benefit? Once a person becomes a government dependent, his moral standing to resist

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the expansion of government power is fatally compromised. Every increase in the number of government dependents means an increase in political power. Each increase in the number of government dependents means another person who sees limits on government power as a threat to his own personal well-being.

America is capsizing as a result of the vast increase in the number of government dependents and employees—a voting bloc that overwhelms every other potential force. H. L. Mencken quipped in the 1930s that the New Deal divided America into "those who work for a living and those who vote for a living"—a division more true now than ever before.

Hopefully, Americans will wake up to the danger of constantly growing government power before it is too late. However, as Twight's book shows, that defense is becoming more difficult with each passing year. □

James Bovard is the author of Lost Rights *(1994) and* Terrorism and Tyranny: How Bush's Crusade Is Sabotaging Freedom, Justice, and Peace *(St. Martin's, forthcoming September 2003).*

Multiculturalism and the Politics of Guilt

by Paul E. Gottfried

University of Missouri Press • 2002 • 176 pages • $29.95

Reviewed by George C. Leef

Recently the book *The Skeptical Environmentalist* by Bjørn Lomborg was denounced by the Danish Committee for Scientific Dishonesty. Without offering specifics, the committee said the book was "contrary to the standards of good scientific practice." It hasn't been banned or burned, but here is an official body endeavoring to tell people what thoughts are unacceptable.

It is part of a growing movement, here and in Europe, toward government management of people's beliefs. In *Multiculturalism and the Politics of Guilt*, Paul Gottfried writes about the mega-state's embrace of that new role. Controlling people's actions just isn't enough for many modern "liberals"; they now wish also to regulate people's thoughts and naturally have turned to government for the necessary enforcement powers. From campus speech codes in the United States to laws like that in France under which writer Michel Hoellebecq was recently charged for having written critically about Islam, we now face a steadily increasing array of sanctions for expressing "incorrect thoughts."

Gottfried, a professor of humanities at Elizabethtown College in Pennsylvania, began his project of describing the growth of what he calls "the managerial state" in his 1999 book *After Liberalism* (reviewed in the October 2000 issue). The current book extends Gottfried's insights to a particularly troubling aspect thereof—its "therapeutic" side, which aims at "curing" people of their "bad" ideas. Gottfried explains: "Our welfare state since midcentury has become increasingly preoccupied with modifying social behavior. And while American administrative democracy has not gone as far economically in nationalizing production [as other governments], it has moved into socializing 'citizens' through publicly controlled education and wars against discrimination. Such reconstructionist initiatives have been taken in response to what the state, the media, and 'victim' groups designate as a crisis, a surging outburst of prejudice that supposedly must be contained and whose representatives need to be re-educated."

What advocates of liberty need to understand, Gottfried contends, is that the central planners have changed their objectives. Whereas the left has long pursued economic planning to eliminate the alleged unfairness of the market, its emphasis has been moving away from economic controls and toward behavioral controls. Politicians like Bill Clinton and Tony Blair understand that they need the economic growth that only a relatively free economy provides to obtain revenue for their social projects. "What distinguishes third-way planners from earlier social democrats is a greater willingness to sacrifice economic collectivism for economic growth," Gottfried writes. "Social control

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by the state does not presuppose a socialized economy, and government interventions into child rearing, spousal relations, and intergroup dynamics can now go forward in conunction with market forces."

The big selling point of old-style socialism was fear—fear of poverty, of "Robber Barons," of the "chaos" of freedom. Like an advertising slogan that is so timeworn that it no longer brings in customers, "fear" has been dropped by the left and replaced with a new hook better suited to contemporary conditions: guilt. People must acquiesce in the new social regulation because they have to atone for a constellation of past wrongs. Gottfried writes, "The relevant political-moral attitude is an ostentatious guilt about the historical past that the majority society is supposed to exhibit." The state and its allies parade before the public a steady stream of "politically correct martyrologies" to keep it compliant.

"By harping on the real or imagined evils of the past," Gottfried writes, "proponents of state-controlled socialization appeal to the guilty conscience of their listeners." He is surely correct in that assertion. Many colleges and universities now have freshman-orientation sessions that are reminiscent of Maoist re-education camps, where white students are harangued and berated so they will "understand" what it's like to be a member of an oppressed group. Yet there is little opposition to those programs, the guiltmeisters having done their work well.

Gottfried's analysis also has its foreign policy dimensions. If government power can be used to "do good" at home, why stop there? Thus we get military interventions abroad not because there is any conceivable threat to the United States, but because the people just aren't behaving nicely. As the author puts it, "This new internationalism, as suggested by Clinton and Blair, aims at nothing less than a transformation of human consciousness." So allied forces go into Kosovo because we have to stop ethnic hatreds, and European nations organize a campaign to punish Austria for electing a prime minister with unenlightened views.

Just as Europe was ahead of the United States in the old, purely economic kind of socialism, Europe has gone further into the therapeutic socialism about which Gottfried writes. There, people are actually fined and imprisoned for verbal offenses against "the antifascist order." The First Amendment still offers us protection against the worst instincts of the thought controllers, but it would be good to remember that judicial "interpretation" that takes away constitutional protection for our liberties is nothing new.

A necessary and important book. □

George Leef is book review editor of Ideas on Liberty.

The Skeptic: A Life of H. L. Mencken

by Terry Teachout

HarperCollins • 2002 • 349 pages plus notes and index • $29.95 hardcover

Reviewed by Sheldon Richman

Nearly half a century since his death, H. L. Mencken (1880–1956) continues to fascinate. What attracts so many to the audacious debunker of sham, the Colossus of literary, political, and social criticism from the 1910s into the 1930s?

His latest biographer, cultural critic Terry Teachout, provides some answers to that question. While not a full-blown biography, *The Skeptic* mines the most important areas of Mencken's life and digs out much of interest pro and con. Mencken fans, of which there remains a legion, won't always be pleased with Teachout's findings or judgments.

As newspaperman, book author, and magazine writer and editor, Mencken courted controversy—deliberately: he celebrated Nietzsche in 1908; he wrote a paean to the Kaiser's Germany in 1914; he offended Jews (though many of his best friends really *were* Jewish); he demeaned blacks (while publishing black authors); he derided Christianity; he promoted a literary naturalism that flaunted the underside of life; and he daily insulted the middle class as

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the "booboisie." He was a man full of prejudices (Mencken's word), who could be unjust to the targets of his gleefully mischievous pen, such as William Jennings Bryan and Calvin Coolidge. Teachout's portrait is often unflattering, and for this some Mencken aficionados blame the biographer. But it is not entirely Teachout's fault. In many ways, Mencken asked for it.

And yet something about him casts a spell. First, there is the quality of Mencken's writing. His earthiness and gusto leave their mark on all who come in contact with him.

Second, he lived a life that many would love to live. Seemingly carefree, daring, and uninhibited, Mencken wrote what he wanted about anything he wanted and the consequences be damned. (Teachout shows us that a good deal of Mencken's public persona didn't square with his private life. Mencken was a respected man of his bourgeois community and lived quietly, in his boyhood Baltimore home, with his mother until she died when he was 45. His biographer believes he was a poseur in more ways than this.)

Third, for libertarians, Mencken was unequaled in capturing the spirit of American individualism. He was never a socialist and had no sympathy with the plans and pretenses of American politicians. ("We suffer most when the White House bursts with ideas.") He valiantly battled censorship and Prohibition, the New Deal and FDR, the burgeoning bureaucracy and its penchant for smothering the creative individual. Many an advocate of the freedom philosophy could spend the day quoting him on the supremacy of liberty, the diabolical nature of government, and the threat from egalitarianism and democracy.

Put these three together, and any mystery concerning the Mencken allure evaporates. For some of us, they tote up to irresistibility. It surely explains why Mencken was so dominant a cultural figure in his heyday that a Hemingway character could say nonchalantly, "So many young men get their likes and dislikes from Mencken."

The Skeptic is a hard book to get a handle on. While Teachout boasts that "Unlike Mencken's previous biographers, I write very broadly speaking, from his point o view," one is hard pressed to find more thai traces of empathy. More often, the reade gets the impression that Teachout doesn' much like his subject. He assuredly admire how Mencken integrated style and sub stance. He is awed by Mencken's prodigiou energy and output. He respects many o Mencken's accomplishments, such as help ing to liberate American letters from a stulti fying and censorial Puritanism and his path breaking description of the "American language." But he also levels serious and even shocking criticism: that Mencken was a bad magazine editor; that his literary self-education was woefully incomplete; that he misunderstood some of the writers he championed and panned; that he was not as dispassionate an observer as he appeared; that his goring of bourgeois America wore thin; and that, most egregiously, he misperceived the rise of fascism and Hitler. He goes so far as to blame the Mencken of the 1920s for helping "lay the intellectual groundwork for the America-hating adversary culture of the sixties."

Mencken is a big subject made more difficult by his confounding contradictions. No biographer of his is to be envied. Much of Teachout's material will cause the reader to grimace, but Mencken admirers will find that after 400 pages, even if their sense of the man is less clear, their admiration somehow survives. □

Sheldon Richman is editor of Ideas on Liberty.

Wealth and Democracy: A Political History of the American Rich

by Kevin Phillips

Broadway Books • 2002 • 472 pages • $29.95 hardcover

Reviewed by Gregory Bresiger

Kevin Phillips, a Republican populist, keeps writing the same book.

In several bestsellers in the 1990s, such as *Arrogant Capital* and *The Politics of*

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he Rich and Poor, Phillips has been describ-ng the American economy in a way that :ould lead readers to think America is a ;iant Bolivia where only the superrich own iny property of consequence. In his depic-ion of America, the rich get richer and the niddle class works overtime and runs up :ndless debts. I can hardly recognize this iation. Phillips has evolved into a social lemocrat whether he acknowledges it or iot.

His heroes, or at least those he constantly quotes, are those who battle "inequality." They are mostly friends of big government. One is former New York governor Mario Cuomo. Phillips admires him and others like him because their social and economic poli-cies are designed to knock the rich down a peg or two and thereby help the rest of us. The only problem with Cuomo's reign in the Empire State is that it hurt the rest of us.

Phillips, a former Republican strategist, is also a fan of populists such as Ralph Nader. The reader is also treated to hymns to Abraham Lincoln, Theodore Roosevelt, Franklin Roosevelt, and other such tribunes who favored big government.

Phillips's disdain for those who accumulate significant wealth is made clear when he approvingly quotes Benjamin Disraeli: "As a general rule, nobody has wealth who ought to have it." (Phillips doesn't inform the reader that Disraeli was notorious for dodging people he owed money to and finally solved his money problems by marrying a rich woman.)

The attentive reader should therefore not be surprised that Phillips also praises a politician, Richard Nixon, who admired Disraeli and wanted to outflank the left by becoming a twentieth century "Tory Democrat." "As president," Phillips writes in bragging that Nixon endorsed his ideas and previous books, "Nixon himself supported national health insurance, income maintenance for the poor, and higher taxation of unearned than earned income."

Phillips leaves out a few things: Nixon ran huge deficits, pressured the Fed to follow loose monetary policies so he could be re-elected, and imposed wage and price controls, policies that gave the nation "stagflation" after Nixon was gone. Those policies hurt the middle class and working poor more than the rich, but Phillips is blind to that reality. Nixon also created the alternative minimum tax, another soak-the-rich device designed for millionaires that is now afflicting middle-class households.

What is Phillips's solution to today's problems of "inequality"? Unless there is another New Deal, another FDR, or a President Nader, Phillips warns, we should all prepare to become serfs in a modern feudal manor.

What is one to make of Phillips's latest quasi-Marxist appeal? Remember the Al Smith line about the New Dealers stealing the socialists' clothing? Michael Harrington, the American socialist leader who saw the Socialist Party defeated again and again, once argued that the way to advance American collectivism was for socialists to join the left wing of the Democratic party. It appears that Phillips—who spends a good part of more than 400 pages praising every "Republican progressive" with any socialist impulse—is doing the same yeoman work in the Republican party. □

Gregory Bresiger is a business editor and writer living in Kew Gardens, New York.

Liberty for Women: Freedom and Feminism in the Twenty-First Century

edited by Wendy McElroy

Ivan R. Dee • 2002 • 353 pages • $30.00 hardcover; $18.95 paperback

Reviewed by Bettina Bien Greaves

Admittedly, men and women are different. Women are from Venus, men from Mars. The French say, "vive la différence." But today's radical feminists exaggerate the difference and consider men and women two "separate and politically antagonistic classes." Libertarians and individualists, on the other hand, look on all men and women as members of the same human race. Radical feminists advocate special treatment

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for women in the workplace, academia, and society; libertarians and individualists see the issue as government force versus freedom and seek equality for women under law.

Wendy McElroy is a libertarian, an individualist feminist ("ifeminist"), and has written widely on the struggle of women for equal rights and opportunity. The contributors to *Liberty for Women*—university professors, lawyers, political scientists, economists, physicians, prostitutes, midwives, and even a president of the American Civil Liberties Union—cover many issues. According to McElroy, "all human beings have a right to the protection of their persons and property," and this book applies that principle consistently.

The authors want to get government off women's backs, recognize their "economic self-sufficiency [and] psychological independence," and maintain "realistic attitudes toward female competence, achievement, and potential." Law professor Richard Epstein, for one, advocates removing legal restrictions and allowing everyone, men and women alike, the freedom to enter into contracts to better themselves through voluntary transactions. He writes that this will "enhance the vitality of the social system as a whole" and that it "dovetails neatly into any and all theories that recognize the limits as well as the uses of markets." As an example of the harm done when the government refuses to respect freedom of contract, consider the Supreme Court's decision, which relied on the Civil Rights Act's anti-discrimination Title VII (1964) and the Pregnancy Discrimination Act (1978), to overturn a voluntarily agreed-on contract devised by a manufacturer of batteries to protect its women employees and their potential offspring from exposure to dangerous chemicals. What the government calls "discrimination" Epstein regards as mutually beneficial agreement.

Only a few of the essays in the collection can be mentioned in this short review.

Political scientist Ellen Frankel Paul explains that affirmative-action, comparable-worth, and sexual-harassment legislation increases the cost of hiring women, ensures that government's "equal-opportunity regu lators" will "remain forever enmeshed in th workplace," and "exaggerates all the prob lems the women's movement has been tryin to change."

"Equity feminist" Camille Paglia consid ers anti-pornography laws "inherently infan tilizing." Cato Institute research associat Cathy Young maintains that "an individ ual's noncoercive sexual behavior is no on else's business."

The subject of abortion is discussed b economist Alexander Tabarrok. He write that while ifeminists consider abortion "a private matter that must be left to the con science of those directly involved . . . main stream 'pro-choice' feminists consider the 'right to an abortion' to be an entitlemen for which others may legitimately be forcec to pay. . . . Ifeminists call for the governmen to get out of reproductive decision-making altogether—to neither subsidize nor tax abortion or other contraceptive choices."

Concerning prostitution, University of Chicago Professor Martha C. Nussbaum argues "there is nothing *per se* wrong with taking money for the use of one's body." "[W]ith prostitution: what seems right is to use law to protect the bodily safety of prostitutes from assault, to protect their rights to their incomes against the extortionate behavior of pimps, to protect poor women in developing countries from forced trafficking and fraudulent offers, and to guarantee their full civil rights in the countries where they end up—to make them, in general, equals under the law, both civil and criminal."

Norma Jean Almodovar, a prostitutes-rights activist and former call girl, argues that "So long as the sex is consensual it should not matter to anyone outside the relationship how many times the sexual activity occurs, or with how many sexual partners, or for whatever mutually agreed upon price." Decriminalization of prostitution "would involve no new legislation to deal with prostitution per se, because there are already plenty of laws which cover problems such as fraud, force, theft negligence, and collusion."

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"[V]exing ethical questions" and "serious questions about individual rights and contract law" may be involved in the controversial new reproductive technologies, but McElroy holds that "like effective contraception and access to legal abortion, [they] seem to provide women with the 'choice' central to virtually all brands of feminism. . . . The true issue surrounding the new reproductive technologies remains 'a woman's body, a woman's right.'"

For decades, radical feminists have misled women as to their interests. *Liberty for Women* explains that their true interests depend on removing legal obstacles to freedom. □

Bettina Greaves was a senior staff member and resident scholar at FEE for more than four decades. Now living in North Carolina, she is a former member of FEE's Board of Trustees.

Robert Nozick

edited by David Schmidtz

Cambridge University Press • 2002 • 230 pages • $60.00 hardcover; $20.00 paperback

Reviewed by Eric Mack

This is a collection of original essays on the philosophical work of Robert Nozick, who died in the spring of 2002. Nozick rose to philosophical prominence with his first book, *Anarchy, State, and Utopia*, published in 1974. Contributor Philip Pettit aptly says that this book still "stands unchallenged as the most coherent statement available of the case for a rights-based defense of the minimal, libertarian state." None of Nozick's subsequent five books dealt directly with political philosophy, and during most of his ensuing philosophical career, he attempted to distance himself from *Anarchy, State, and Utopia* (*ASU*). Nevertheless, it is indicative of his failure to establish this distance that most of the essays in this volume focus on the libertarian doctrine of *ASU*. I shall follow suit by concentrating on the three strongest of the essays on Nozick's political thought.

Loren Lomasky's chapter, "Nozick's Libertarian Utopia," contends that Nozick's discussion of libertarian utopia—which Nozick presented as a supplementary argument for the minimal state—is actually a crucial component of the main argument in *ASU*. Nozick says that his main argument for the minimal state is that it could arise by morally permissible steps from a stateless condition. Lomasky recognizes that showing that the minimal state could arise in this way is hardly decisive, for many radically different political structures could arise by permissible steps—if people freely take dumb enough steps. So Lomasky depicts Nozick's appeal to the utopian aspects of the libertarian political framework as a way of revealing why this structure is more appealing than other structures that could also arise by permissible means. According to Lomasky, the minimal state is more appealing because it has the utopia-like, synergistic feature of promoting a social order in which each person's well-being is likely to be good for other people too. These are not the important benefits for people that arise from trade or joint production. Rather, they are the vicarious benefits for people of others achieving their own diverse goods in their own ways.

In *ASU* Nozick rejects the consequentialist idea that rightness and wrongness in an action is entirely a matter of the value or disvalue of that action's consequences. He holds, instead, that performing an action can be wrong even if its outcome would be more valuable than the outcome of not performing that action. For instance, it can be wrong for you to kill innocent person A even if your killing A would prevent someone else from killing innocent persons B and C. (Here we accept the conventional wisdom that it would be better for one innocent person, rather than two innocent people, to be killed.) According to Nozick, there are certain principles you ought to abide by—such as, do not kill innocents—even if your abiding by those principles does not maximize those principles being abided by.

Philip Pettit's essay, "Non-Consequentialism and Political Philosophy," focuses on and criticizes Nozick's anti-consequentialism.

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Pettit does a nice job of laying out the standard—but, I think, mistaken—arguments for why everyone ultimately has to be a consequentialist.

The fundamental dispute between anti-consequentialists and consequentialists is a dispute about the nature of practical rationality. Is rationality in action entirely a matter of effectively attaining one's goals? Or is it also in part a matter of abiding by certain principles—such as the principle against killing innocents—which may restrict the means one may use toward the attainment of one's ends? Gerald Gaus's essay, "Goals, Symbols, Principles: Nozick on Practical Rationality," analyzes Nozick's subsequently developed theory on this matter. Gaus shows that Nozick's post-*ASU* dissatisfaction with libertarianism can be traced to this theory; for according to Nozick's later doctrine, the only reason one has to act in conformity with a moral principle—such as, the principle of not coercing people to come to the aid of others—is the "symbolic utility" involved in the act of abiding by th principle. Hence, one should be prepared t violate that principle whenever the utility– especially the symbolic utility—of violatin the principle is greater than the symboli utility of abiding by the principle. Fo instance, one should be prepared to violat the principle of not coercing people to com to the aid of others whenever the symboli utility of having official, public programs o assistance to the needy is greater than th symbolic utility involved in the act of abid ing by the principle. Gaus points to deej flaws in Nozick's later, essentially conse quentialist, account of practical rationality.

Each of these strongest essays is difficul going. First read *Anarchy, State, and Utopia* Then mull it over and read it again. Then gc in search of interesting commentaries—three of which can be found in Schmidtz's *Robert Nozick*. □

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IDEAS ON LIBERTY
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Profits Versus Love

A few years back we thought about building a deck or a porch on the back of our house. But we decided against it when the estimates started coming in. They were about double what the architect had told us it would cost. Double! Had the architect misled us as a way of encouraging us to proceed with the project? No, six months earlier the Mississippi had overflowed its banks and destroyed a lot of houses in the St. Louis area. Carpenters and builders had no time to build a back porch or a deck. They had bigger fish to fry. To get them to build a porch, you had to pay a premium.

We delayed the project for a couple of years, and prices came down. That delay was an example of the hidden benefit of high prices. When prices are high, the least-urgent projects get delayed, freeing up resources for more urgent projects. The porch just isn't worth it. So the wood I would have used instead gets set aside to rebuild a washed-away house. The carpenter I would have kept busy now works on building that new house.

That magical role of prices in directing resources is the bread and butter of economics. But to the non-economist, high prices are just a form of gouging that ought to be stopped. It's wrong to let people profit from the distress of others.

Economists tend to be pretty agnostic on morality. Prices work, we explain patiently; price controls don't. If you try to limit prices by law, you'll just end up hurting the people you're trying to help. Price controls will discourage lumber from coming into disaster-struck regions. Better to let prices do their job, we'll say.

I think what underlies this difference in opinion between the professional economist and the man or woman in the street is deeper than just an understanding or misunderstanding about what works. There's a more fundamental issue here: the issue of what motivates behavior.

Non-economists tend to look at motivation as either altruistic or greedy. Either you're motivated by profit or by the opportunity to help others. A lot of people are turned off by market-based solutions because using the market is so mercenary. Why would we want a social order based on greed? Why would we want to encourage some to profit from the hardship of others?

Where economists see resources whizzing around the country to help people in distress, non-economists see profiteering, gouging, and immorality.

Let's look a little more closely at natural disasters like the Mississippi flood in 1993 or any of the various hurricanes that touch land and wreak havoc. After these disasters, prices of lumber and tools and the services of carpenters often spike upward for a while and can remain high. I've been told that when hurricanes hit and lumber prices go up, some people don't just ship the lumber

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they bought for their own use to the devastated area to make a killing; they load it into trucks and drive it there themselves. Those are the people I want to think about for a moment. What do you think is on their minds as they drive south?

As an economist I assume those people are like the rest of us—a mixture of saint and sinner. Normal. Complicated. Full of all kinds of motivations, some base, some sublime. As they head down to, say, Florida, I assume they're glad to make some money on their lumber. But I also assume they're glad to be part of helping people out. Glad to make money. Glad to be helping. Glad to make money. Glad to be helping.

Which is it? Profits or love?

It's both. They're not mutually exclusive. Presumably the high prices motivate some cold and heartless people to overcome their desire to spend the weekend counting their money and instead to head to Florida. But I also presume this is not the typical person driving lumber southward. The typical person is someone who wants the lumber for purely personal use—a nice deck or porch, some home-repair project—but who now finds the incentive of the higher price attractive. That person drives down joyously knowing that the lumber is going to help someone who lost a house. The money is nice. And so is the intangible feeling of helping others.

Here's the key insight of economics: some of those folks who go down with a song in their hearts because they know they're helping others would have stayed home if the price of lumber hadn't soared. It's hard to get in your car and disrupt your life and give up your lumber. The monetary incentive makes it easier. The higher price doesn't just induce the hard-hearted to go. It induces the altruist as well.

But if people are altruistic, won't they g without the monetary incentive? Sure, som will. Just not as many. You might b tempted to say that without the monetar incentive, only the saints will go. But eve this misses the point. Some saints will sta home because they have saintly things to d there. The monetary incentive applies t them as well. Even saints can do more goo in the world when they have more resource than when they have fewer.

Prices Substitute for Knowledge

There's a final point to be made about let ting the price of lumber rise. Go back to th porch I wanted to build. The flood neve reached my neighborhood. Most of the dam age was miles away, and after the new reports died down I forgot about the flood. never saw the feverish rebuilding, so I hac no idea that lumber and the time of carpen ters had gotten scarcer. But I didn't have tc know. The higher price induced me, alon with a lot of other would-be porch builders to do a good deed. We gave up our lumbe and carpenters to people who were willin to pay the premium. No one had to give mc a lecture on the benevolence of delaying my porch. I was induced by the invisible hand tc be altruistic.

How sad it is that people think econom ics is the study of money or that they think economists believe in elevating mercenary motives above compassion. The great insight of economics is that people make tradeoffs. The basis for that insight is a recognition that behavior is complex and that no one has a single-minded motivation or a single goal. When we talk about the role of prices in our economy, we need to remember that complexity. □

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